Austria .. Sch 18	Indonesia .. Rp 2700	Portugal .. Esc 80
Bahrain .. Din 0.650	Italy .. L1300	S. Arabia .. Rs 5.75
Belgium .. Fr 38	Japan .. Y550	Singapore .. S$ 4.10
Canada .. C$1.00	Jordan .. Fils 500	Spain .. Pta 110
Cyprus .. C£0.60	Kuwait .. Fils 500	Sri Lanka .. Rs 25
Denmark .. Dkr 7.25	Lebanon .. L£ 6.00	Sweden .. Skr 6.50
Egypt .. E£1.00	Luxembourg .. Fr 38	Switzerland .. SFr 2.20
Finland .. Fmk 6.00	Malaysia .. Rm 4.25	Taiwan .. NT$ 65
France .. Fr 8.00	Mexico .. Pes 320	Tunisia .. Din 0.600
Germany .. DM 2.20	Morocco .. Dh 6.00	Turkey .. L 210
Greece .. Dr 70	Netherlands .. Fl 2.50	U.A.E. .. Dh 5.50
Hong Kong .. HK$ 12	Norway .. Nkr 6.00	U.S.A. .. $1.50
India .. Rup 15	Philippines .. Pes 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,622 Monday May 13 1985 D 8523 B

China's trade challenge: concern in Indonesia, Page 5

World news | Business summary

UK death toll rises after fire at stadium

Leon Brittan, the British Home Secretary, will address the House of Commons today on the fire at the Bradford City football team's home ground on Saturday in which at least 52 people died.

Surgeons are working around the clock to save the lives of 12 other people. Seventy of the 200 people admitted to hospital after the packed football stand burned to the ground are being detained for treatment.

The fire, the second biggest disaster in British football history (66 people died at Ibrox Park, Glasgow in 1971), began 10 minutes before half time and spread quickly as supporters tried to escape on to the pitch or through exit gates, many of which were locked.

Protest at Pope

Thousands of demonstrators clashed with riot police in Utrecht while leading Dutch Catholics attacked Pope John Paul's policies on the first day of his visit to the Netherlands. Page 2

Ortega in talks

Nicaraguan President Daniel Ortega met Spanish Communist Party officials in Madrid after winning political but not economic backing from Prime Minister Felipe Gonzalez over the U.S. trade embargo against the Central American nation. Page 3

S. Africa union call

Fosatu, the Federation of South African Trade Unions, called on Transvaal employers to pay workers who attend the funeral on Tuesday of Mr Andries Raditsela, a union organiser who died while being held by police. Page 2

Swedish strike

Swedish civil servants, staging the country's biggest ever public sector industrial dispute, made their first concessions to the Government last night by allowing key post office workers to return to work today. Earlier story Page 2

Italy goes to polls

Italians began voting in local and regional elections which could have important implications for the country's political future. Page 2

Tehran car bomb

A car bomb exploded in a busy Tehran street during the morning rush hour, killing 15 people and wounding at least 50 others. Page 3

Israeli tribute

Israeli President Chaim Herzog told Soviet leader Mikhail Gorbachev in a telegram marking the 40th anniversary of the end of world war two in Europe that Jews would never forget the Soviet army's role in saving them from the Nazis. Page 3

Palme strike plan

Swedish Prime Minister Olof Palme says he cannot rule out the introduction of special legislation ordering striking civil servants back to work. Page 2

University occupation

Left-wing activists occupying the Athens University chemistry building are refusing to leave and have renewed their threat to blow the building up if police break in.

Druze take icons

Druze leader Walid Jumblatt said his men took Christian icons from the 274-year-old Greek St Saveur monastery outside Sidon, and would not return them until Pope John Paul took a more even-handed attitude to Lebanon's Christian-Moslem conflict. Page 3

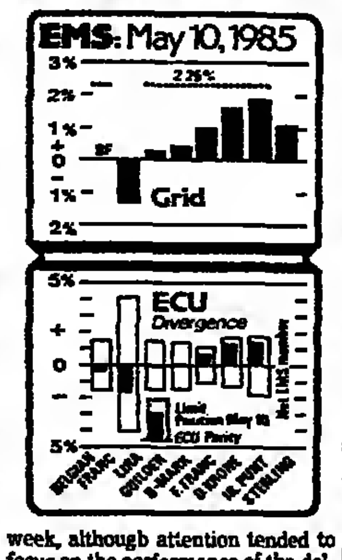
Bhopal victims

Victims of the Bhopal poison gas disaster in India show few signs of recovery and the gas may have polluted the city's soil and water supply, according to an independant medical team's survey.

Rescue bid for Maryland S and L

U.S. BANKING officials are trying to assemble a rescue package to save Old Court Savings and Loan of Maryland which faced a heavy run on deposits at the weekend. Prior to the crisis, Old Court was one of the most rapidly expanding savings institutions in the U.S., boosting assets in the last three years to $840m from $140m. Page 16

EUROPEAN Monetary System: The Irish punt remained the firmest currency within the system last week, although attention tended to focus on the performance of the dollar.



The latter fluctuated quite sharply as the market awaited further clarification on the direction of the U.S. economy.

The D-Mark was slightly firmer but there was no pressure on the weaker member currencies with the weakest, the Belgian franc, comfortably within its divergence limit.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

MEXICO'S trade surplus for the first quarter of 1985 fell 42 per cent to $2.3bn with imports rising 37.6 per cent, oil exports dropping 8.6 per cent and non-oil exports falling 16.3 per cent. Page 3

CHILE and its creditor banks are considering a World Bank guarantee to help the country raise part of the $1.95bn it needs to meet a balance of payments gap. Page 17

NICARAGUA announced measures to overcome the impact of U.S. embargo, including purchase of machinery and raw materials in friendly countries. Page 3

AUSTRIAN banks face radical reforms outlined by the Finance Ministry aimed at improving capital ratio adequacy. Page 17; World Banking Survey, Section III

LLOYD'S underwriters whose affairs are managed by interests of Minet Holdings will be told today they stand to lose more than £60m ($73.2m). Page 6

CARL ICAHN, the Wall Street investor and takeover specialist, is considering a bid for control of Trans World Airlines after acquiring a 20.5 per cent stake in the transatlantic carrier.

ZAYRE, the fast-growing U.S. discount department store, expects this week to report earnings of $14m for the first quarter against $10.6m in the corresponding period last year. Page 20

POWER CORPORATION of Canada, the holding company controlling financial services, industrial and resource subsidiaries, has reduced its debt substantially and is now looking for new projects or acquisitions, according to Mr Paul Desmarais, chairman. Page 20

Some statistical material in this issue may not have been updated, as a result of an unauthorised meeting called by clerical members of the Sogat '82 union in London on Friday.

W. German state voters deliver rebuff for Kohl

BY PETER BRUCE IN BONN

CHANCELLOR Helmut Kohl, the West German leader, and his Christian Democrat (CDU) party, have suffered a humiliating electoral defeat at the hands of the opposition Social Democrats (SPD) in the country's biggest state, North Rhine Westphalia.

SPD politicians in Bonn were jubilant last night after their deputy chairman, Herr Johannes Rau, who has ruled the state with an absolute majority for the past five years, not only held on to that majority but increased the party's vote from 48.4 per cent in 1980 to nearly 53 per cent.

The CDU vote collapsed by some 7 percentage points from the 43.2 per cent won in 1980, and not even the modest gains made by its Bonn coalition partners, the Free Democrats (FDP), whose vote has risen from 4.98 per cent to just under 6 per cent, will be enough to enable them to form a government in the state, home to a third of West Germany's voters.

The collapse of the CDU vote is even more dramatic if measured against the 45.2 per cent they won in the state during the last general election in 1983. Then the SPD took only 42.8 per cent.

The radical Greens party also suffered badly at the hands of the SPD, and failed, despite increasing its vote, to reach the 5 per cent mark and gain entry to the state parliament. North Rhine Westphalia is the most heavily industrialised state in the country and ought to have been a natural hunting ground for the environmentalist Greens, who even failed to win 5 per cent in the Ruhr area, the industrial heart of the state.

Greens spokesmen conceded after the polls had closed yesterday that a continuing debate in the party, over whether to make legalised sex with children part of their party platform, had seriously damaged their performance in the poll.

Yesterday's vote is a personal blow to Chancellor Kohl, who not only chose the CDU candidate, Dr Bernhard Worms, over the former CDU leader in the state, but also campaigned heavily on his behalf.

The vote is also being seen as a judgment on the Chancellor's successful attempt to persuade U.S. President Ronald Reagan to visit the German war cemetary at Bitburg, despite a fierce international row, during his state visit to West Germany at the beginning of the month.

The SPD has now scored two impressive victories over the CDU this year, the first being in March when it snatched overall control of the Saarland from a CDU-FDP coalition. Herr Willy Brandt, a former Chancellor and chairman of the party, voicing particular satisfaction at the poor showing by the Greens yesterday, said the North Rhine-Westphalia vote had proved the SPD could rule the country on its own.

Herr Rau, who, despite his reluctance when questioned on the subject during the run-up to yesterday's vote, is now likely to come under great pressure from within the party to either stand as a candidate for the federal chancellorship in the next general election in 1987 or to take over afterwards should the present leader, Herr Hans-Jochen Vogel, fail to wrest control from Herr Kohl.

Both Chancellor Kohl and Dr Worms blamed the poor CDU showing yesterday on the difficulties Bonn is having in bringing down unemployment, which reached a post-war record of 10.6 per cent in January.

Brazil proposes fresh deal for IMF loan

BY ANDREW WHITLEY IN RIO DE JANEIRO

BRAZIL has proposed a rearrangement of its loan agreements with the International Monetary Fund to gain more time to put its economic house in order. Under the proposal the "new civilian" Government of President José Sarney would not need to take into account the austerity measures agreed under military rule.

Brazil wants to replace its present extended fund facility loan agreement, which is due to expire in February 1986, with a new stand-by loan lasting 12 to 18 months.

No additional funds from the IMF would be required, as the $1.5bn still to be disbursed under the old programme would be replaced with a new loan unlikely to exceed $1.4bn. The IMF is reported to be agreeable to the change.

The Brazilian bank advisory committee in New York also agreed over the weekend to propose to the country's other 700 bank creditors a third 90 day extension of existing debt renegotiation terms, to allow time for fresh negotiations with the IMF to be completed.

The second phase of the Brazilian renegotiations has already been extended twice beyond its original deadline of December 1984, and was due to expire at the end of this month. But the technical level discussions between the Brazilian Government and the IMF team on the conditions to be attached to the new loan will begin in Brazil only in the week of May 27.

In last week's first round of discussions between the Brazilians and the full, 14-bank advisory committee on the revival of the previously negotiated multi-year rescheduling agreement, the biggest stumbling block to emerge was the question of monitoring of the Brazilian economy by the IMF after the end of the fund's agreement.

Bankers involved say that while they are insisting on a meaningful monitoring procedure – involving at least six monthly check-ups – Sr Antonio Carlos Lemgruber, the Brazilian Central Bank Governor, argued that this would be unacceptable to Brazil's Congress. In contrast to the past, both the IMF and bank agreements will be submitted to Congress for its approval.

Another serious point of disagreement, according to Brazilian officials was the issue of "down payments" during the agreed seven-year grace period. Under the original draft agreement, negotiated by the Figueiredo Government in February, Brazil would have made progressively increasing capital repayments from this year onwards, on the lines of the latest Mexican rescheduling agreement.

Little progress is reported to have been made in last week's negotiations with the banks, which are scheduled to be resumed in New York next Monday.

The advisory committee is believed to be unenthusiastic about the proposed switch to a stand-by loan. In contrast to the Brazilians, it is anxious to wrap up the 16-year, $45.3bn rescheduling package as soon as possible, fearful that further delays will only play into the hands of hard-liners in the Brazilian Government and Congress.

Sr João Sayad, the Brazilian Planning Minister, who takes a tougher line on the foreign debt issue than his colleagues at the Finance Ministry and the Central Bank, told the Financial Times on Thursday that Brazil needed better terms on its foreign debt renegotiations, including "new money."

The Planning Minister, who is close to the leadership of the Brazilian Democratic Movement Party, the senior partner in the ruling coalition, said new money would be needed either this year or next. Other officials put the likely sum needed in 1985 at around $2.5bn, if Brazil is to avoid drawing down its recently restored foreign exchange reserves.

International Capital Markets, Page 17

UK consortium secures £15m Singapore electronics contract

BY JASON CRISP IN LONDON AND CHRIS SHERWELL IN SINGAPORE

A BRITISH consortium led by General Electric Company has won a £15m ($18.3m) order in Singapore to supply a trial installation for Teleview, an information system combining telephone-based viewdata and broadcast teletext services.

Teleview is claimed to be the world's most sophisticated information system. The Telecommunications Authority of Singapore plans to give up to 1m terminals to practically every home and business in the country. The highly ambitious project could eventually cost nearly £1bn over five years.

The order was won in the face of particularly strong competition from Thomson of France which is understood to have underbid the GEC group by about £3m.

The UK consortium, which includes British Telecom, Marconi GEC Computers and EASAMs, a GEC subsidiary which will manage the project says it won because it offered a system based on proven technology.

The Singapore decision is a considerable boost for the British standards in both viewdata, as used by British Telecom's Prestel service, and teletext, as used by BBC's Ceefax and ITV's Oracle.

The combined system in Teleview is also likely to have considerable potential in other countries, particularly the Far East. The British viewdata system looks like becoming a world standard as it has been adopted by many other European countries as well as Hong Kong, Malaysia, Australia and New Zealand.

Teleview has been developed to get round the problems of sending Chinese characters and pictures quickly on a telephone line in a viewdata service. Teleview subscribers will use television sets with special adaptors to telephone a central computer like a conventional viewdata system. The information may come back, however, either via the telephone or broadcast on a dedicated television channel addressed to an individual set. Pictures and Chinese characters can be sent much more quickly using the broadcast route.

The initial £15m order is for a trial system with just 1,200 subscribers. A demonstration project is to start in September and the full trial should be in operation by early 1987. If it is successful there will be an international tender for the full system.

Reagan faces challenge over budget cuts

BY STEWART FLEMING IN WASHINGTON

AS PRESIDENT Ronald Reagan yesterday put the final touches to his ambitious plans to reform the U.S. tax system, as his Democratic opponents in the House of Representatives were threatening significant revisions to his budget-cutting package, passed by the Senate last week.

Mr William Gray, the Democrat who heads the House of Representatives budget committee, pledged yesterday that his committee will this week report on a budget resolution which will match the over $50bn of budget cuts for 1986 which the Senate approved.

But he stressed that the Democratic package will look very different from the Republican one. In particular the House of Representatives he suggested, is going to find alternatives to the cuts in benefits for 36m retired Americans and the reduced government spending for America's farmers. "I do not think the House will do to senior citizens in America what obviously the President and his party did in the Senate" Mr Gray said yesterday.

Even some Republicans in the House of representatives sensitive to their own re-election prospects next year, are reluctant to endorse the cuts in benefit for the aged which Mr Gray claims contribute one fifth of the proposed budget savings in the Senate plan. They are fearful too that Mr Reagan may have exposed himself to efforts to cut even deeper into defence spending.

Mr Yasuhiro Nakasone, the Japanese Prime Minister, told a parliamentary committee at the weekend that he thought cuts in both personal and corporate taxes next year might be appropriate. Before the Bonn summit, 10 days ago, he said the Japanese economy did not need extra stimulus for the time being. Page 16

The President was forced to make significant concessions on defence spending to achieve that narrow victory, concessions which amount to a serious rebuff for Mr Caspar Weinberger the Defence Secretary. But Mr Reagan's decision to make that sacrifice now is widely seen as evidence that he has shrewdly chosen the right moment to compromise.

Some highly regarded political analysts such as Mr David Gergen, the former Reagan Administration communications director, are arguing that by putting himself back in the vanguard of efforts to reduce the budget deficit Mr Reagan has pulled his presidency out of a "nose dive."

The Senate vote came after two weeks which saw the President suffering a succession of political reverses. These included defeat of his plans for funding the Contra rebels

Continued on Page 16

Citicorp set to buy Italian state bank

BY ALAN FRIEDMAN IN MILAN

CITICORP, the world's largest banking group in asset terms, is in an advanced stage of negotiations that could lead later this week to a $120m purchase of Banca Centro Sud, an Italian state-controlled bank which is part of the IRI state holding group.

The agreement, not yet finalised, will require the approval of the Banco di Roma, the IRI bank which holds 74 per cent of Banca Centro Sud. Last Thursday the Consob stockmarket authority suspended dealings in the bank's shares, which are traded on Milan's secondary market. It is believed that Citicorp's Italian subsidiary would not attempt to make a tender offer for the remaining 26 per cent of Banca Centro Sud, which is held by 10,000 shareholders.

If Citicorp succeeds it will have fulfilled its long-held ambition of acquiring an Italian bank with a branch network. One attraction is to gain control of a local bank with a deposit base so as to gain access to funds which are otherwise costly on the Italian interbank market.

Banca Centro Sud, based in Naples and active in the south of Italy, has 43 branches and L1,847bn ($928m) in deposits. Last year net profits totalled L22.7bn.

Citicorp tried unsuccessfully last year to buy Credito Varesino, a private Lombardy bank which was part of the Nuovo Ambrosiano group. Varesino was sold instead to Banca Popolare di Bergamo.

Citicorp's Italian bank subsidiary, which has been operating since 1962, has its headquarters in Milan and branches in Turin, Rome and Florence.

Bombings threaten settlement of Sikh problem

By John Elliott in New Delhi

PROSPECTS FOR an early settlement of India's Sikh unrest in Punjab have suffered a serious setback with bomb attacks over the weekend and with dramatic developments in the political leadership of the Sikh's main political party.

The weekend's events pose Mr Rajiv Gandhi, the Prime Minister, his gravest Sikh crisis since his mother, Mrs Indira Gandhi, was assassinated by two Sikh security guards six months ago. They underline fears that the Punjab problem will become a long-running sore, which could divert the Government from its planned economic reforms and other priorities.

At least 80 people died and over 150 were injured in two days of bomb attacks by Sikhs in northern India. By last night more than 1,000 people had been arrested in a clampdown and the New Delhi police claimed they had arrested three Sikh extremists responsible for the city's bomb attacks which claimed 44 lives.

Throughout the weekend there were fears that there might be a violent Hindu backlash against the Sikhs, as happened after Mrs Gandhi was assassinated. But this did not materialise and last night the police and army claimed they had the situation under control.

Sant Harchand Singh Longowal, the relatively moderate leader of the Akali Dal, the main Sikh party, resigned along with two other top officials to pave the way for a takeover by Mr Joginder Singh, 90-year-old father of Jarnail Singh Bhindranwale, the leading extremist who was killed when the army took over the Golden Temple in Amritsar nearly a year ago.

The resignations are to be considered by leading Sikhs at a conference on May 22.

The degree of unrest among Sikhs was further demonstrated on Saturday when the Shiromani Gurdwara Parbandhak committee (SGPC), the Sikhs' main religious organisation, decided to pull down and rebuild the Akkal Takht, the holy building inside the Golden Temple complex, which was badly damaged in last year's army action.

Moderate Sikhs, with the government's support, rebuilt the Akali Takht after the action. But the Sikh leaders have now accepted arguments from their extremists that the buildings has been defiled and must be replaced. This would probably be an emotionally disturbing exercise for the Sikh community throughout India, upsetting the Government's attempts to cool the situation.

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CONTENTS

OVERSEAS NEWS

S. African gold mine riots leave 19 dead

BY JIM JONES IN JOHANNESBURG

NINETEEN black mine workers have died and 36 are in hospital after the faction fighting during the last month at gold mines in South Africa's Orange Free State.

The 15-minute clash between an unknown number of migrant Basotho and Xhosa mineworkers erupted on Saturday night at a compound for black employees of the President Rand gold mine near the town of Welkom, which is managed by Anglo American Corporation. Mine security officials broke up the fight with tear gas.

Anglo American says that it does not know why the fight took place between men armed with knives, rocks and sticks. A similar outbreak last weekend at the same compound between 400 Basothos and Xhosas left one man dead and another seriously injured.

Last month nine men died in another fight between Xhosas and Basothos at the neighbouring President Steyn mine.

President Rand is South Africa's 13th largest gold mine and produced 22.6 metric tonnes of gold last year. President Steyn the country's 12th largest gold mine, produced 24.4 tonnes last year.

Faction fighting is not uncommon in South Africa's gold mines. Anglo American said yesterday that fights in the past had stemmed from disputes over land or cattle.

Mine personnel officers believed that last weekend's dispute had been settled, but they had been unable to determine its precise cause and were taken unawares when fighting flared again on Saturday evening.

● Mr Willie Malembo, 18, a detained activist of the United Democratic Front, was taken to hospital in the eastern Cape town of Oudtshoorn on Saturday after going on hunger strike.

Mr Malembo and Mr Bernard Koelman, a student leader and Front member, who is also on hunger strike, were arrested last Thursday on charges of public violence.

● The Federation of South African Trade Unions has called on Transvaal employers to give a day's paid leave to employees to attend the funeral tomorrow of Mr Andries Raditsela, a union organiser who died from a brain haemorrhage last Monday after being questioned by police.

Civil service lock out deepens Swedish crisis

BY KEVIN DONE IN STOCKHOLM

THE POLITICAL crisis facing Sweden's Social Democratic Government deepened at the weekend when the state employer board moved to lock out about 80,000 civil servants, including about 55,000 teachers, in the country's biggest public sector industrial dispute.

The strike has caused growing unease in Swedish financial markets, which already have been unsettled by a continuing large outflow of capital from the country. Short term interest rates rose sharply on Friday amid rumours of imminent government moves to tighten fiscal and monetary policy.

The lock out is the Government's response to the continuing strike by 20,000 civil servants, members of the 265,000-strong TCO-S public sector union, in support of a controversial pay claim which is threatening to break the Government's voluntary 5 per cent pay guideline.

The union turned down at the weekend a last ditch offer from the state appointed mediator—it was accepted by the state employer board—and last night no new negotiations between the two sides were in sight.

The lock out means that about half a million Swedish schoolchildren will be without teachers from today.

About 150 state agencies are affected by the strike and lock out, which has closed Sweden's airports for scheduled air traffic and is beginning to hit industrial production.

Mr Olof Palme, the Prime Minister, expressed disappointment and surprise at the union's rejection of the mediator's latest offer. He said that the Government could not allow the strike to blow off course its economic strategy for lowering inflation, but he is anxious that it should be ended by negotiation rather than legislation.

A two-year wage agreement made by the state in March last year included a clause allowing the unions to renegotiate if their wages fell substantially behind the private sector.

TCO-S is claiming compensation of 3.1 per cent a year, but the Government maintains that an increase would jeopardise its anti-inflation programme.

Bonn under pressure on cereal price cuts

BY IVO DAWNAY IN BRUSSELS AND PETER BRUCE IN BONN

WEST GERMANY faces intense pressure to relax its rigid stand against cuts in EEC cereal prices as a sixth round of talks begin between Community farm ministers today.

The mounting frustration at Germany's blockage of an agreement on a 1985-86 farm prices package over the cereals issue has now led to widespread criticism in the German press.

Several newspapers and agro-economists have attacked Herr Ignaz Kiechele, the Farm Minister, for his refusal to offer a compromise on the European Commission's call for a 3.6 per cent price cut for grains. "Bonn is smashing the last pieces of china in Brussels," a leading Frankfurt daily said.

Others have pointed to the conflict in Bonn's public avowal of majority voting to speed decision-making in Community forums and its implied threat of veto over cereal price cuts.

Nevertheless, it is understood that the German Cabinet has given Herr Kiechele authorisation to wield the veto if any attempt is made to force the issue to a vote at this week's talks. Such a move would win the backing of the UK — the most vocal advocate of cereal price cuts on the grounds that the principle of the right of veto must be upheld.

A British abstention would be enough to prevent other member states from forcing through a vote accepting the cuts by qualified majority.

Given the continued blockage, there seems little likelihood that a new Commission compromise package, due to be tabled today, can succeed. The Italian presidency of the farm council is also unlikely to try to push for a vote if this will clearly be unacceptable.

There has been some speculation, however, that Herr Kiechle might allow a small, symbolic reduction in cereal prices — perhaps by 0.9 per cent — as a gesture to Community solidarity. Approval of this would require the unanimous backing of his colleagues in the face of continued Commission insistence on a more substantial reduction.

This would leave Britain isolated in its battle for a minimum 3.6 per cent cut. Mr Michael Jopling, the UK minister, would undoubtedly point to the budgetary implications of such a move. The Italians have long argued that any relaxation of the austerity prices package for northern products would require parallel concessions for the Mediterranean.

That would almost certainly lead to the final bill exceeding the Ecu 20bn (£12bn) budget allocated to agriculture and thereby require the endorsement of finance ministers.

Protests mar papal visit to Utrecht

By Laura Raun in Amsterdam

ABOUT 3,000 demonstrators armed with stones and smoke bombs protested against the visit of Pope John Paul II to Utrecht yesterday during a trip to the Netherlands that has been described as the most difficult of all his travels.

Police battled with truncheons to keep protesters away from the Congress Hall where the Pope addressed priests and pastoral workers. The confrontation was the first during Pope John Paul's controversial four-day visit, which has prompted calls for his assassination and criticism from inside and outside the Roman Catholic Church.

The Pope's pastoral visit to the Netherlands, where about 40 per cent of the 14m population is Catholic, is a bid to gather straying members of the flock back into the fold. Dutch Catholics have been in the vanguard of the worldwide church for the last two decades, differing with the Vatican on issues such as contraception, priestly celibacy and ordination of women.

The Pope, the most conservative church head in recent years, exhorted the Dutch to seek closer unity with Rome, to accept Vatican decisions in good faith and to aspire to a spiritual renewal. This message clearly was aimed at defusing bitter opposition that has surrounded the naming of the last four bishops, conservatives who were chosen over the local church's wishes. The hope is that the Pope's personal charm and unshakeable conviction will win back Catholics, many of whom are non-practising and unorthodox.

Upon his arrival on Saturday, the Pope delivered a fervent evangelical appeal in Dutch to much smaller numbers of followers than had been expected. Only about 10,000 turned out to see him kiss the ground in Eindhoven, compared with forecasts of up to 100,000.

Because of the widespread outcry over the Pope's trip, security arrangements have been among the tightest in post-war history, with more police mobilised than for any of Queen Beatrix's appearances.

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Italians start voting in crucial regional elections

BY ALAN FRIEDMAN IN MILAN

AN ESTIMATED 44m Italians began voting yesterday in local and regional elections which could have profound implications for the country's political future. Polls close this afternoon, but definitive results are not likely until tomorrow.

The administrative elections, which are expected to attract a turnout of more than 80 per cent, are being billed by the major parties as a test of the performance of the five-party ruling coalition headed by Sig Bettino Craxi, the Socialist Prime Minister.

Sig Craxi, whose government has lasted for 21 months, has said he regards the poll as a "mid-term test" and indicated that he will resign if the five parties of his coalition — Christian Democrats, Socialists, Republicans, Social Democrats and Liberals — poll less than 50 per cent. This is considered unlikely; the five-party coalition at present holds 56 per cent of the vote.

A key result will be the vote won by the opposition Communist Party, which polled almost 30 per cent of the vote in the 1983 general election and in last year's European elections overtook the dominant Christian Democrats by a fraction to become for the first time the biggest party in Italy.

Jumblatt rejects call for dialogue

By Nora Boustany in Beirut

MR WALID JUMBLATT, the leader of the Moslem Druze community in Lebanon, yesterday rejected any dialogue with Christian militia commanders and expressed regret over the fate of Christians under their leadership.

Speaking at his ancestral home in the village of Mukhtara, the Druze chieftain rebuffed a call by Mr Elie Hobeika, the newly-appointed Christian militia commander, for a dialogue among battling Lebanese factions.

The mainly Druze militia of Mr Jumblatt pushed through a string of Christian villages from its mountain strongholds on April 28, securing access to the coast at Jiyyeh. More than 10,000 Christian families were displaced in the Druze takeover.

Mr Hobeika, who replaced the hardline Christian commander Mr Samir Geagea on May 9, has since declared allegiance to Syria. However, Mr Hobeika's violent past and his involvement in organising the Sabra and Chatila massacres of Palestinian civilians in September 1982, make him no more acceptable to the Druze than his predecessor. Mr Geagea seized power in a Christian militia revolt on March 12.

Mr Jumblatt warned that this was the last chance for President Amin Gemayel to govern the country and described his election as a historical mistake. He vowed that the Christian militias would be tried for the massacres committed in the past. "I am sorry for this end for Christians through the leadership of Hobeika and others."

The beleaguered Christian community is now concentrated in a border strip in south Lebanon, East Beirut and areas north of it.

Mr Jumblatt admitted that his men had razed the Christian village of Alman to the ground and ripped away icons from a famous Greek Catholic monastery at the village of Deir Mkhalles.

Reuter adds from Washington: A secret U.S. operation set up to make pre-emptive strikes against Moslem extremists was disbanded this year after an unauthorised car-bombing mission left 80 dead in Beirut, the Washington Post said yesterday.

Israel confirms 'no PLO' stand in Shultz talks

BY DAVID LENNON IN TEL AVIV AND TONY WALKER IN CAIRO

ISRAEL has made it clear to Mr George Shultz, the U.S. Secretary of State, that its objections to any PLO members participating in a joint Jordanian-Palestinian delegation to peace talks are unchanged.

Israel rejected the attempt by Mr Shultz to bridge the gap between that position and the PLO's insistence on its participation by suggesting that the representatives should be drawn from members of the Palestine National Council (PNC), the PLO's "parliament in exile."

Mr Shimon Peres, the Prime Minister, told the Cabinet after the departure of Mr Shultz that he had told him that Israel was prepared to conduct direct negotiations with a Jordanian-Palestinian delegation, provided it did not include participants committed to the Palestinian Covenant. The Covenant does not accept the right of Israel to exist.

But Mr Yitzhak Shamir, the Foreign Minister, did not emulate the Premier's attempt to hide Israel's rejection of the U.S. suggestion under a careful formula which could be correctly interpreted only by those familiar with the semantics of the region.

He said after meeting Mr Shultz: "The PNC is a part of the PLO. It decides the policy of the PLO and appoints its executive. We cannot differentiate between the two. There is no place for any formula which will enable the PLO to enter negotiations."

Mr Yassir Arafat, PLO chairman, said in Peking yesterday that there was no question of non-PLO members being involved in a joint delegation. He had agreed with King Hussein of Jordan that a joint delegation would include the PLO and said that this initiative was the last chance for a Middle East peace settlement.

Mr Shultz said during his flight from Tel Aviv to Cairo: "We need to find people who are wholly recognised as representatives of the Palestinians and who also have a background that is acceptable in the negotiating process."

He later talked for several hours to President Hosni Mubarak of Egypt before flying to Jordan to meet King Hussein.

The Jordanian monarch had returned earlier yesterday from a brief visit to Saudi Arabia, where he consulted King Fahd.

While in Jerusalem, Mr Shultz also discussed Israel's economic woes. Mr Peres told the Cabinet that Mr Shultz had made it clear that the US$1.5bn (£1.21m) emergency economic aid sought by Israel would be given without any preconditions.

Tehran car bomb kills 15

A CAR bomb exploded in a busy Tehran street near the bazaar (central market) during the morning rush hour yesterday and state radio said 15 people were killed and at least 50 wounded, Reuter reports from Tehran.

No one claimed responsibility for the bomb, estimated by police to have contained 50 kg of explosives, but the national news agency Irna blamed "lackeys of U.S. imperialism." In Paris, the Iranian opposition People's Mujahedin group condemned the bombing and said it was not responsible.

The blast started fires which destroyed eight shops and a warehouse. Twenty buildings were damaged and windows were shattered 250 metres away, police said.

The last major bomb attack in Tehran was in March, when a suicide bomber killed himself and 13 worshippers at the weekly open-air prayer gathering on Tehran University campus.

Palestinian POW deal in doubt after leak

By Our Tel Aviv Correspondent

A PLAN to exchange about 1,000 Palestinian prisoners of war for three Israeli soldiers held prisoners by a PLO faction is now in doubt following leaks from Damascus about the imminent deal.

The exchange was due to take place this week with the assistance of the International Committee of the Red Cross (ICRC). But a French news agency report about it over the weekend led the Palestinians to deny the deal had been concluded.

The three Israelis have been held prisoner by Mr Ahmed Jibril's Popular Front for the Liberation of Palestine—General Command since being captured in Lebanon in 1982.

They were not included in the November 1983 exchange of six Israeli prisoners of the PLO for all 4,500 Palestinians held by Israel in the Ansar detention camp in southern Lebanon.

After emptying Ansar at that time, the army subsequently refilled it with 1,200 detainees who were recently transferred to Israel when the army pulled back from that area of southern Lebanon.

Israel also holds some 120 prisoners believed to belong to the PFLP-GC organisation. One of the demands of the Palestinian organisation was that the released prisoners be given the option of leaving or returning to their homes in the occupied West Bank and Gaza Strip.

In Damascus, a spokesman for the PFLP-GC said yesterday that negotiations for the exchange of prisoners were continuing. "What counts for us is to free the largest possible number of our comrades held in Israeli jails inside occupied Palestine and that they remain in occupied Palestine fully free.

"When the enemy will agree to these essential conditions then we can start discussing the details of the implementation procedures," he said.

Nicaragua seeks to counter U.S. embargo

BY TIM COONE IN MANAGUA

THE NICARAGUAN Government has announced a series of measures to counter the effects of the U.S. trade embargo imposed last week.

They include a major effort to relocate export products in new markets in East and West Europe, the Arab countries and Latin America, and to substitute machinery and raw materials formerly purchased in the U.S. by products imported from countries friendly to Nicaragua.

Dr Sergio Ramirez, the Vice President, said: "If our country was dependent before on the U.S. in many economic aspects, this is the opportunity we have to break with that dependency."

In a parallel development at the weekend, the Nicaraguan currency, the cordoba, is to be floated for non-commercial transactions in a move which in effect, legalises the black market that has mushroomed over the past two years because of the country's foreign exchange crisis. Nicaragua's deficit on the current account last year exceeded $500m (£405m). Exchange controls have also been lifted.

Under the new proposals to beat the embargo, complete factories and production systems based on U.S. machinery, much of which is already obsolete, will gradually be phased out or replaced. Spare part banks are to be established and such replacement parts as can be manufactured in the country will be made in a new factory, drawing on the experience of a workplace innovative movement that has been under way for several years.

Basic grain and agro-export crops are to have priority for both finance and access to raw materials and machinery imports. Controls are to be tightened on distribution of basic goods.

Under the new foreign exchange rules the free movement of foreign currency into the country will be allowed, with no limitations on the amount any individual can hold, although $10,000 remains the maximum any person is allowed to take out of the country in a year.

Dr Joaquin Cuadra, president of the Central Bank, in announcing the measures on Saturday, said that it had been impossible to control the black market by coercive measures.

A four-tier exchange rate system ranging from 20 to 50 cordobas per dollar, introduced in February for commercial transactions through official channels is to remain in force. The new free market rate is expected to run close to the present black market rate of between 500 and 800 cordobas to the dollar.

Exchange houses are to be opened over the next two weeks to operate the new free market and will be licensed and monitored by the central bank. Dr Cuadra was imprecise about the objectives or likely economic affects of the liberalisation of currency controls, but said that further measures may be introduced if the opening of the free market proved to be highly distortive to the economy.

It appears that, in the face of the foreign exchange crisis being aggravated in the short terms by the U.S. trade embargo, top priority sectors will be allocated the existing foreign exchange, leaving other sectors to compete openly and legally for the estimated $50 to $80m that presently circulates in the black market.

● A Mexican trade delegation, led by the official Foreign Trade Institute and leading private industrialists, left yesterday on a promotion tour of Nicaragua, Cuba and Panama. The initiative predates last week's U.S. trade embargo on Nicaragua but is nevertheless being widely seen as an attempt by Mexico to offset some of its effects.

The Cuban portion of the tour will include a major Mexican trade fair, before a planned Cuban trade expedition in Mexico later in the year. Nicaragua's left-wing Sandinista Government owes over $500m to Mexico, largely for oil shipments.

Sr Felipe Gonzalez, the Spanish Prime Minister, said after talks with President Daniel Ortega of Nicaragua this weekend that Spain would maintain trade relations and assistance, but announced no fresh aid plans in the wake of the boycott of Nicaragua by the U.S., David White reports from Madrid.

He ruled out military aid by Spain and said Madrid's attitude would not be one of "response to the U.S. in the aggressive sense."

President Ortega, whose arrival from East Germany on an unofficial visit coincided with a UN Security Council's resolution on Nicaragua, held a luncheon meeting with Sr Gonzalez on Saturday. The Spanish Premier informed him of discussions held earlier in the week with President Reagan on the Central American conflict.

At a joint press conference, marked by fierce attacks by President Ortega against Mr Reagan, the two leaders reaffirmed their support for the four-nation Contadora initiative as the forum for achieving peace in the region.

Sr Gonzalez said he believed an "understanding" was needed between the U.S. and Nicaragua, and stated firmly that there was no question of Spain acting as a mediator.

He said President Reagan had respected Spain's position on the embargo and its opposition to taking similar measures. Spain would continue providing humanitarian assistance to Nicaragua.

Fall trend in trade surplus worries Mexico

BY DAVID GARDNER IN MEXICO CITY

MEXICO's trade surplus for the first quarter of this year has fallen 42 per cent compared with the same period last year, continuing a trend visible in the last quarter of last year, which is causing growing concern among government officials and foreign bankers.

The quarterly surplus was under $2.3bn (£1.86bn), with imports rising 37.6 per cent, oil exports dropping 8.6 per cent, and non-oil exports falling 16.3 per cent. If the trend continues, the annual surplus is likely to be $8bn-$9bn, against record surpluses in 1983 and 1984 of $13.8bn and $12.8bn.

The fall in non-oil exports is particularly disturbing because it is on those that Mexico is pinning its hopes of restoring growth levels of 5-6 per cent by next year. Mexico's $16bn-plus oil revenue, amounting to about three-quarters of its export earnings up to last year, will be tied up in debt service payments for the foreseeable future.

After the multi-year rescheduling of $48.7bn of Mexico's $96bn foreign debt signed in March, debt service payments this year will still be $15.2bn, rising steadily to $23.2bn in 1990.

Last month, the Government introduced an important trade liberalisation package in an effort to boost non-oil exports and force down domestic prices. It also signed a bilateral agreement with Washington which eases the entry of Mexican goods to the U.S. market in exchange for the lifting of all export subsidies by December next year.

However, the core of the liberalisation measures, a scheme known as Diemex whereby exporters would be allowed to import free of taxes, tariffs and import licences 40 per cent of the value of their exports, has been successfully resisted so far by a Mexican industrial lobby which has thrived on 40 years of protectionism.

The unexpected vigour of the upturn in Mexico in the last quarter of last year, continuing into this year, has meant that Mexican goods, which were being exported as surplus to domestic demand, are again being sold internally.

Sr Jesus Silva Herzog, Mexico's Finance Minister, said last week: "If Mexico is going to grow at an acceptable rate, this cannot continue, we have to export more."

He and other senior government officials said that the Diemex scheme would be implemented although in a less aggressive and more gradual form than originally envisaged.

WORLD TRADE NEWS

Dunkel to renew efforts to revive trade round talks

BY CHRISTIAN TYLER, TRADE EDITOR

DISCREET efforts to revive the flagging momentum of progress towards global trade negotiations are expected to be made by Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, when he takes the chair at a high-level Gatt meeting that starts in Geneva today.

The two-day session of the Gatt consultative group of 18 countries is the first opportunity to gauge Third World reaction to the failure of the Bonn economic summit to set a firm date for a new round.

Gatt officials fear that the refusal of President Mitterrand of France to give in to U.S. pressure for a starting date of early next year has played into the hands of developing countries already suspicious of the agenda outlined by the U.S. and its supporters.

As a result, hopes are fading that this week's debate on the future work of the Gatt will end with a firm commitment from the wide cross section of nations represented on the committee.

The group of 18 includes Brazil and India, leading voices of the Third World, as well as the U.S., Japan, the EEC (collectively as well as individually), Canada, Australia and representatives from Asia, Latin America, Scandinavia and the Eastern Bloc.

But other divisions as well could hold up attempts to get negotiating preliminaries under way before the end of the summer.

The French believe that the U.S. wants to use a Gatt negotiation primarily to get the EEC's Common Agricultural Policy dismantled.

EEC farm export subsidies, by pushing other exporters out of third markets, for long have angered commodity producers such as America and Australia.

A fragile consensus reached in the Gatt for negotiations on agricultural trade — the cornerstone of a wider agenda for liberalisation — could be in danger of breaking up again.

Meanwhile, trade relations between the West and Japan, one of the first countries to call for a new round, have been deteriorating rapidly in recent weeks.

The U.S. Administration, supported especially by British ministers, has warned Mr Yasuhiro Nakasone, the Japanese Premier, of a protectionist backlash in the West and a possible trade war unless Japan acts quickly and positively to open her markets to the goods and services that they say Japanese companies can sell with little restriction in the West.

With such powerful political cross-currents at work, the Gatt committee this week may be unable to do more than throw discussion of a new round forward to a meeting of the full Gatt Council of 80 countries early next month.

The Swedish Trade Ministry, meanwhile, has arranged an informal meeting in Stockholm of trade ministers from rich and poor nations shortly afterwards in an effort to break the diplomatic log-jam.

Thomson to use Oki equipment at Nancy

By Paul Betts in Paris

Thomson, the nationalised French electronics and defence group, confirmed yesterday that it was installing highly automated Japanese assembly and manufacturing equipment at its new semiconductor facility, now under construction at Nancy, eastern France.

The equipment is being supplied by Oki Electric Industry of Japan as part of a comprehensive collaboration agreement between Thomson and the Japanese group in high performance integrated circuits.

Thomson signed the agreement with Oki last October. It is part of the French group's efforts to build up an important presence in the semiconductor and electronics components business.

Under the deal, Oki agreed to transfer to Thomson its know-how in memory circuits and in the fabrication of these systems.

Oki's manufacturing system is expected to be installed at Nancy next September, Thomson officials at Nancy said yesterday. The new semiconductor facility was due to start regular production next January with output of about 26m units a month.

Kieran Cooke reports from Jakarta on unwelcome trade competition

Indonesia fears China's challenge

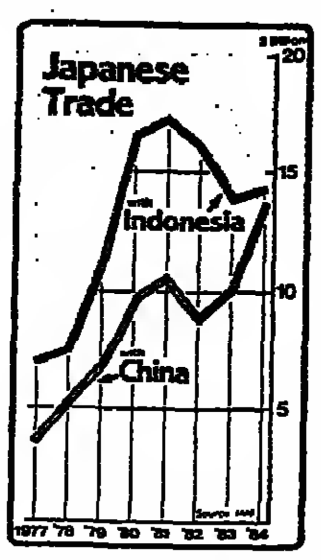
THE businessman was well meaning. "When we were in China recently," he told his Indonesian hosts, "we saw such progress. It was all very impressive." The remark went down like the proverbial lead balloon, a reaction which one observer attributed to Indonesia's "China obsession." The obsession is based on regional political and economic rivalries and profound suspicion of China's aims in the region.

Jakarta's scenario is a straightforward one. It feels that as China advances so it will be able to exert even greater political and economic influence over south-east Asia. China, aided and abetted by the economically powerful Chinese minorities in most countries in the region, will be able to exercise similar control to that of the Soviet Union over Eastern Europe or the U.S. over South America.

Looked at from Jakarta, the Indonesian view does seem to have some substance. First, Indonesia is very aware of the threat China poses to its position as Asia's biggest oil exporter.

More than 60 per cent of Indonesia's total export earnings are derived from oil sales: Japan is the biggest customer by far, taking more than 70 per cent of Indonesia's total oil exports.

But last year, as China's oil exports to Japan increased, Indonesia's share of the Japanese market dropped from 15 to 13 per cent.



Another cause for nervousness in Jakarta is that China, as a non-Opec member might undercut Indonesia's Opec imposed prices. There is evidence that Indonesia's non-oil and natural gas exports to Japan could also be suffering from Chinese competition, particularly in the clothing and textile sectors.

Overall trade between Indonesia and Japan currently slightly exceeds Sino-Japanese trade. But China is rapidly catching up. Last year total two-way trade between Japan and China went up by more than $3bn to $13.6bn.

Japanese investments are also crucial to the development of both the Indonesian and Chinese economies. Japan has consistently been the biggest investor in Indonesia: since 1967 it has invested more than $8bn in Indonesia, representing more than 30 per cent of total investments.

But last year, Japanese investments declined by more than 10 per cent. As Mr Ginanjar Kartasasmita, head of Indonesia's investment co-ordinating board says: "We are now facing very tough competition from China in attracting new investments from Japan. In the past few months Japan has not committed itself to any new major investments in Indonesia, but instead had launched big projects in both China and the U.S."

Last year, foreign investments in Indonesia dropped dramatically from $2.5bn in 1983 to a little over $1bn.

Indonesia, despite its considerable economic progress under the firmly development-oriented policies of the Government of President Suharto, is still seen as a high-cost economy, where low labour costs are more than offset by illegal charges and other corrupt practices. In addition there is a stifling bureaucracy.

Thus while China is attracting attention as an exporting base, almost all investments in Indonesia, outside the oil and gas sector, are geared to the home market.

Indonesia is tackling these problems and has recently embarked on a comprehensive anti-corruption campaign. It has also been aggressively seeking new markets for its goods and making efforts to diversify its oil and gas exports.

From next year South Korea will begin importing Indonesian liquefied natural gas; at present Japan is the sole LNG buyer.

While political suspicions persist in Jakarta there has recently been a breakthrough in trade relations. Wu Xue Qian, the Chinese Foreign Minister, recently became the first Chinese official to visit Indonesia for nearly 20 years.

In past years, even while no direct trade took place, China still exported more than $200m worth of goods annually to Indonesia.

Indonesia, however, did not encourage exports to China. All that is changing: "We cannot afford any longer to ignore the China market," says Dr Mochtar.

This year Indonesia's exports to China are forecast to go up by more than 200 per cent — Jakarta traders expect exports of plywood alone to China to reach more than $400m.

McDonnell Douglas to sell jets to S. Korea

By Paul Taylor in New York

McDONNELL DOUGLAS, the U.S. aerospace group, has signed a deal to sell six MD-82 jets, versions of its twin-engined 150-seater MD-80 series jetliner, to the South Korean Government for about $150m.

The deal, which comes less than a month after McDonnell Douglas announced an agreement to sell 26 of the jets to China over the next six years, provides for South Korea to purchase an additional three aircraft.

Under the terms of the latest sale two of the jets will be delivered in each of the next three years.

● The Swiss parent company of the Brown Boveri Engineering group has, together with Siemens of West Germany, won an order worth SwFr 160m (£49m) for the delivery of two static convertor stations to China, John Wicks reports from Zurich.

The stations form part of a high-voltage, direct-current transmissions link.

At the same time, the Zurich-based chemical engineering company Ems-Inventa has booked a SwFr 55m contract to instal two units for the polymerisation of polyester fibres at the Foshan Textile Industrial Company in China.

SHIPPING REPORT

Hopes for tankers unrealised

HOPES THAT the tanker market would liven up after last week's holidays in Europe were not realised, according to shipbrokers E. A. Gibson, Our Trade Staff reports.

The period of relative calm in the Gulf war appears to have done little to stimulate business, while the approach of religious holidays in the region may—as in the past—lead to increased military activity.

The Gulf loading area was particularly quiet, and although one 225,000-tonner received worldscale 23 for a voyage to Taiwan, the rest of the fixtures were for small or medium-sized vessels.

There were few cargoes out of Indonesia, according to Gibson, and inquiries were virtually non-existent in the Mediterranean.

The West African market was still fairly busy, although quieter than in the recent past. Even so, there is so much surplus tonnage in the area that the rates have not increased.

Galbraith's reported a fairly active chartering market in the North Sea, prompted by lower oil prices in the area. However, this had not led to any general improvement in rates.

The broker also spotted a possible prospect in press reports that the U.S. Administration is to lift restrictions and allow modern tankers to enter the highly lucrative Alaskan oil trades.

Denholm Coates, reporting on the dry cargo market, said Atlantic rates were drifting lower.

UK industry resigned to MFA stance

By Anthony Moreton, Textiles Correspondent

THE British decision to adapt a more liberal stance on the renewal of the Multifibre Arrangement (MFA), the agreement that regulates about 80 per cent of world trade in textiles and clothing, appears to have been accepted with resignation by the industry.

"We shall want to look at the small print of the minister's statement in the House of Commons on Thursday," one industry spokesman said yesterday, "but, frankly, the shift in position has not surprised us."

Another took comfort in the fact that "it is pretty clear now that abandoning the MFA is not a realistic political position."

"Some ministers would seem to want this but although the statement by Mr Paul Channon, Minister for Trade, was unpalatable it was at least coupled to concessions."

Mr Channon had told the Commons that the Government would urge its European partners to give greater access to imports from the less-developed Third World countries but in return would expect to see a lowering of tariff barriers in those countries against British and other exports.

He accepted there was a need for an extension of the MFA but believed such an extension should merge into the world trade talks under the aegis of Gatt (the General Agreement on Tariffs and Trade) promised at successive Western summits and that in return for a more liberal trade regime the MFA could be phased out.

All the MFA negotiations are undertaken for EEC members by the Commission and the next crucial date will be the July meeting of the Council of Ministers.

Mr Eric Ha, Hong Kong's Secretary for Trade and Industry, said in London yesterday that the developing countries stood by their implacable opposition to the MFA.

But both China and South Korea are thought to be sympathetic about trading tariff concessions for an abolition of the MFA and Hong Kong probably is, too. The hard-line camp, which is against offering any compromise, is led by Pakistan, Egypt, India and Brazil.

Finns likely to build liners

By Olli V. Virtanen in Helsinki

THE Norwegian Royal Caribbean Cruise Line has reportedly decided to give the contract for two large luxury cruise liners to the Finnish shipbuilding company Wärtsilä. The total value of the deal will be in the region of $300m.

Neither company will confirm the information but according to sources in Helsinki and Oslo the parties have reached a basic agreement on the deal. The chairman of RCCL, Mr Roald Aukner, says that the winning bidder among the four competing yards will be announced in June.

World Economic Indicators

UNEMPLOYMENT

		Apr. '85	Mar. '85	Feb. '85	Apr. '84
UK	000s	3,272.6	3,267.6	3,323.7	3,107.7
	%	13.5	13.5	13.7	12.8
U.S.	000s	8,426.0	8,396.0	8,399.0	8,800.0
	%	7.3	7.3	7.3	7.8
		Mar. '85	Feb. '85	Jan. '85	Mar. '84
W. Germany	000s	2,474.5	2,611.3	2,619.4	2,392.3
	%	9.2	9.7	9.7	8.9
France	000s	2,419.8	2,484.9	2,541.9	2,247.0
	%	10.6	10.9	11.2	9.9
Italy	000s	3,242.2	3,239.1	3,213.5	3,011.0
	%	14.2	14.2	14.1	13.2
Netherlands	000s	773.4	801.9	804.2	835.0
	%	13.4	14.1	14.1	13.2
Belgium	000s	580.0	596.0	619.4	573.6
	%	14.1	14.5	15.0	13.9
		Feb. '85	Jan. '85	Dec. '84	Feb. '84
Japan	000s	1,440.0	1,520.0	1,420.0	1,710.0
	%	2.6	2.4	2.6	2.7

Source (except U.S., Japan): Eurostat

UK NEWS

Vauxhall electricians end strike over robots

A STRIKE by 180 electricians which had crippled production at the Vauxhall car plant at Ellesmere Port, Merseyside, was called off yesterday after the company agreed to let members of the electricians union, the EEPTU, maintain new robotic equipment at the factory.

The electricians will return to the plant today after holding a mass meeting yesterday at which the terms for settlement were outlined to the members.

Normal production is expected to resume at the plant within the next few days, where 1,800 workers were laid off last Thursday.

The dispute has cost Vauxhall more than £4m in lost production of the Astra car, for which there is already a three-month waiting list.

Vauxhall had originally maintained that members of the EEPTU will not be involved in scheduling or diagnosing faults in new robotic equipment. The machinery was installed last July, and since then white collar staff have been operating and maintaining equipment.

Now the company has agreed to let the electricians work on duplicate automation equipment alongside white collar workers.

Mr John Randall, the EEPTU convener at the factory, said: "As far as we are concerned, this has been a climbdown by the company which has said all along that no electricians will be operating this equipment. They have now agreed to our members being responsible for maintaining and diagnosing faults for this equipment."

☐ GOVERNMENT faces the possibility of further damaging defeats in the Lords today on its Bill to abolish the Greater London Council and six metropolitan county councils. This follows a series of defeats during the detailed committee stage debate which has caused ministers serious concern and threatens to dislocate the Government's timetable for the Bill.

Today's debate will centre on a group of Opposition amendments removing the Environment Secretary's powers to abolish or reconstruct the Inner London Education Authority without fresh legislation.

Another amendment, tabled by Lord Alport, a senior backbench Conservative, would impose a six-year time limit on any decision to make changes to the authorities.

☐ GEC ROLLS-ROYCE (Power Generation) has won a £15m contract to supply three gas turbine generating sets for the Shell/Esso Tern offshore development in the northern sector of the North Sea.

It is the first major order for the company, a joint venture set up last summer to combine the overlapping portions of the gas turbine based power generation businesses of GEC and R-R.

☐ TEACHERS' strikes over a pay claim would hit 729 schools in 43 education authorities this week, affecting about 450,000 children throughout England and Wales, the National Union of Teachers said. Strikes will last between half a day and three days.

Underwriters' losses may exceed £60m

BY JOHN MOORE, CITY CORRESPONDENT

TRADING LOSSES suffered by Lloyd's of London underwriting members, whose affairs are managed by interests of Minet Holdings, the insurance broker, are set to rise to more than £60m. The underwriting members will be told today of the worsening position at a meeting in London.

Earlier this month underwriting members were told that the losses for the last underwriting account for 1982 could be around £30m. But underwriting members have been warned that "further substantial losses" will fall on the 1983 and 1984 underwriting accounts, which have not been closed.

The Lloyd's insurance market operates a three-year accounting system. It leaves its accounts open for three years in order to take account of insurance claims arising on the market's insurance policies.

The underwriting members, whose affairs are managed by the Richard Beckett agency, part of the Minet group, have faced losses of £40m for the 1981 underwriting account. Another wave of losses of £60m has hit the members for the 1982 underwriting account. And a further series of losses is forecast for the 1983 and 1984 accounts, which remain open.

The worsening situation has led Minet to take the unusual step of winding up the Richard Beckett operations, which it hopes to complete by the end of this year.

Last year underwriting members were told by Minet that in addition to the trading problems some £40m had been diverted by former underwriting executives without the members' knowledge. Minet arranged a compensation payment of £40m to cover the funds which had disappeared which the members used to meet their underwriting losses.

Minet has said that there will be no financial aid for the underwriting members this year and Lloyd's chairman, Mr Peter Miller, has said that there will be no financial assistance from the market.

Lloyd's underwriting members have to accept the principle of unlimited liability – and have to pay out of their own money any insurance claims which fall on them in their capacity as members of Lloyd's. They are liable to the full extent of their private wealth.

Last year the trading losses were spread broadly across 1,525 members of Lloyd's whose affairs the Beckett agency managed. But the latest set of losses of £60m and the future losses fall largely on an insurance syndicate in which are grouped just 400 underwriting members whose affairs are managed by the Beckett agency.

The syndicate concerned – number 918 – has produced losses of £19,700 for every £10,000 of insurance business accepted at Lloyd's for the 1982 underwriting account. Individual members are facing losses of up to £500,000 or more from their involvement with the syndicate.

ACT to sell cheaper versions of personal computers in U.S.

BY JASON CRISP

APPLIED Computer Techniques (ACT) is to launch two cheaper versions of its range of personal computers in the U.S. in an attempt to stimulate disappointing sales there.

ACT originally intended to launch the new computers in Britain this week but has decided to divert initial production to the U.S. The fast-growing computer group entered the U.S. market only this year through Apricot – a company set up with $20m in which it holds a 20 per cent stake.

Although ACT now has over 100 dealers in the U.S., volume sales of the Apricot for general-purpose computing have failed to materialise. It claims to be having more success selling the computers for specialised use such as to the construction industry.

ACT will launch the cheaper and more basic F series computers in the U.S. in June in an effort to gain volume sales.

The company faces extremely stiff competition in this area from the established market leaders, Apple and International Business Machines. In addition, the U.S. personal computer market has been weak in recent months as customers wait for IBM to launch a new version of its best-selling Personal Computer, the PC2.

The new ACT models will be different versions of the F1 – on sale in Britain at just over £1,000. They are now unlikely to be launched in Europe before the early autumn.

However ACT is to make substantial price cuts on two of its existing products which have not been selling well. The most important is a £200 cut in the price of the F1e, which is aimed at the education market. The move will put pressure on Acorn's BBC computer which has over 70 per cent of the education market.

The F1e aimed at schools and universities will cost £595 for a system which includes a disk drive, has a 16-bit microprocessor and uses a standard operating system, which means it can run a wide range of software.

Acorn uses a less powerful microprocessor, has a proprietary operating system and no disk drive. The company – which was rescued earlier this year by Olivetti of Italy – has only just launched a new version of the BBC micro at £499.

Acorn's high price for the new computer has been widely criticised. Observers suspect it is exploiting the fact that schools are heavily committed to the BBC system and will continue to buy it. However, a number of companies are keen to break Acorn's hold on the substantial education market.

Pit union leader warns on overtime

By David Goodhart, Labour Staff

MR PETER McNESTRY, leader of the coal mine supervisors' union, Nacods, warned yesterday that an overtime ban by his members "will only be the first step" in the union's campaign to stop pits being shut outside the terms of agreed procedures.

The result of the Nacods overtime ban ballot is expected on Thursday, and if, as is widely expected, there is a large vote to support the ban, it will become operational almost immediately. The resultant loss of output could be as high as 30 per cent, according to the National Coal Board.

The Nacods ballot paper does not allow the union executive any discretion over the implementation of the ban. The possibility of a strike ballot to follow the overtime ban has clearly not been ruled out by Nacods officials if the coal board refuses to budge. The board has now, according to Nacods, closed six pits without agreement following the March 27 statement which said that, because of damage caused during the 12-month long miners' strike, some pits would have to close without going through procedure.

The Nacods leadership believes those closures to be contrary to the terms of the October 1984 agreement which was described by ministers and coal board officials as "sacrosanct."

Mr McNestry said that the union's credibility was now in the balance in the light of the board's treatment of its agreements. In addition to anger over the March 27 statement, the union is also accusing the coal board of dragging its feet on talks to establish the modified review procedure agreed in outline in October.

He said yesterday that proposals put forward by the board for the modified procedure would make it worse than the existing one and that the Board wanted to end the existing "status quo" procedure

State pension move could push up welfare contributions

BY MICHAEL PROWSE

THE PHASING out of the state earnings-related pension scheme (Serps), agreed in principle by the Cabinet last Thursday, could require a big increase in national insurance contributions for about 9.75m British workers.

For members of occupational pension schemes currently "contracted out" of the state system, employer and employee contribution rates combined may have to rise from 13.2 per cent of earnings to about 16.5 per cent, the Treasury has confirmed.

The Confederation of British Industry argues that the rise in national insurance contribution rates would add about £3bn to industry's costs.

However, this is probably an overestimate of the effect of Serps' abolition as there are 5.6m members of public sector pension schemes, the vast majority of which are contracted out of Serps. The actual cost to industry might therefore be £1.5bn.

The rise in contribution rates, however it is distributed between employers and employees, is likely to be unpopular because it will not be compensated by any increase in benefits for members of occupational schemes.

The problem arises because the Government currently expects the 11m workers contracted in to Serps to pay much more towards the cost of current pension benefits than the 9.75m contracted out.

Even though all contributions are used to pay for current pensions, combined employer and employee national insurance rates for those contracted in are 19.45 per cent of earnings. The big premium over the rates paid by those contracted out is justified by the promise of future earnings-related benefits.

If Serps was abolished, everybody would qualify for the same state benefit – the basic pension – as those currently contracted out. But if the contribution rate for those contracted in were reduced to the present contracted out rate, the national insurance fund would plunge into deficit to the tune of about £4.7bn.

The 11m workers contracted in to Serps might expect to see a reduction in their total contribution rate from 19.45 per cent to the new rate of 16.5 per cent.

But they have no more reason to be pleased by Serps' abolition than those contracted out who will experience higher contribution rates.

The problem is that the reduction in employers' and employees' combined contribution rates of about 3 percentage points for those now contracted in will not be sufficient to buy them benefits in a private funded pension scheme comparable to those they would lose if Serps were wound up.

This is because the gap of more than 6 percentage points between the current contribution rates of those contracted in and those contracted out reflects an actuarial estimate of the cost of funding the Serps benefits.

Contracts and Tenders

Company Notices

Legal Notices

MEHMET BROTHERS LIMITED
(In Voluntary Liquidation)

NOTICE IS HEREBY GIVEN, pursuant to section 299 of the Companies Act 1948 that a General Meeting of the Members of the above-named Company will be held at the offices of Singla & Company, Chartered Accountants, New Broad Street House, 35 New Broad Street, London EC2M 1NH on 24th May 1985 at 11.00 am to be followed at 11.15 am by a General Meeting of the Creditors for the purpose of receiving an account of the Liquidator's acts and dealings and of the conduct of the winding-up to date.

S. K. SINGLA, F.C.A.
Liquidator

30th April, 1985

Fears grow about viability of state conference project

BY SUE CAMERON

FEARS are growing in Whitehall that the Government's £80m conference centre in the heart of London could prove to be e big loss maker.

The eight-level centre, which will be capable of housing six conferences simultaneously and which will need at least 100 permanent staff, was given the go-ahead only after a political row about whether it should be a private sector or e state-run venture.

Eventually, after e series of discussions by the full Cabinet, it was decided that the Government's own Property Services Agency (PSA) should be responsible for building and running the centre which stands on a prime site opposite Westminster Abbey.

It appears that in the political furore which accompanied the decision to set up the project, nobody bothered to do any adequate market research or costings.

The Government may now face two choices – either to hireout the centre at competitive market rates and so ensure that it runs at e loss for many more years than was originally intended; or to set charges at a level which would give a reasonable payback period for the investment – but which would risk pricing the centre out of the market and leave it standing empty for much of the year.

Inadequate costings are not the only snag in attracting customers. Successful conference centres are usually housed inside or very close to hotels. There are hotels in the vicinity of the conference centre, but as one Whitehall official remarked last week: "Most of them are decidedly downmarket and not the sort of places that people using the cooference centre would want to stay at."

The PSA has declined to comment on the costings, saying that its officials are at present studying payback periods and hiring charges.

The cooference centre is already built and carpets and curtains are now being installed. It has managed to attract about 60 definite reservations from the private sector for conferences up to the year 1991.

Given that it can hold six conferences at any one time, that is not thought to be a great number – equivalent to just over 10 e year for the first five years of the centre's life. Most cooferences last for a week or less. The Government will also use the centre, but probably for not more than eight weeks a year at the most.

Zenith boost for film industry

By Raymond Snoddy in Cannes

ZENITH, the independent production company, yesterday announced a significant boost for the British film industry. The company, a wholly-owned subsidiary of Central, the Midlands independent television company, announced at the Cannes Film Festival a group of five new films costing a total of ebout £15m.

Expansion plans came the day after the Zenith film *Insignificance* represented Britain in competition at the film festival.

The new films include High Places – a tragi-comedy about Dr Stephen Ward, the osteopath who was at the centre of the Profumo scandal of the 1960s and Armageddon "featuring" leaders of the UK, U.S. and Soviet Union in puppet form from the Spitting Image television show. The five films, three of which will be made this year, represent dramatic growth for Zenith.

Mr Charles Denton, former director of programmes at Central, now chief executive of Zenith, said: "This is a really major move forward." Half the finance for the package is already in place before any of the rights have been presold.

INSURANCE

Lloyds in delicate talks to crack China market

LLOYD's underwriters could be on the edge of a breakthrough in their dealings with the Chinese insurance market. Last week, Mr Peter Miller, Lloyd's chairman, predicted that there could be a considerable increase in the flow of marine insurance business to the London market following discussions with Chinese insurers over the last month.

During April a delegation from Lloyd's, led by Mr Miller, held discussions with the People's Insurance Company of China and government officials in an effort to secure more business from China's insurance market.

The People's Insurance Company is responsible for all insurance and reinsurance transaction undertaken in China and on behalf of Chinese clients operating internationally.

The company employs 30,000 people, and the latest figures available indicate that its revenue for 1982 was more than $600m. But the economic development programmes and expansion of China's industrial infrastructure are expected to generate substantial insurance for the People's Insurance Company. By the end of this decade the revenue is expected to increase to more than $2.5bn.

Along with other insurers *outside* China Lloyd's has to rely on picking up what business it can through reinsurance. The People's Insurance Company is estimated to lay off between $100m-$125m of its business in reinsurance in international insurance markets to protect itself against onerous losses.

Whether Lloyd's is able to make further inroads into the Chinese market depends on delicate negotiations which are in progress in London.

Lloyd's underwriters are holding discussions with the Institute of London Underwriters, which represents over 100 insurance companies operating in the marine insurance market in London. They are attempting to resolve two technical problems which have so far held up an aggressive development of the marine insurance market in China.

For many years the Chinese have been unhappy with the wording of marine insurance policies issued in London for the insurance of ships against the risk of war.

Policies issued in London refer to the automatic cancellation of the insurance contract in the event of war between the "five great powers." The fact that this includes China has apparently stirred Chinese sensibilities. A formula is being worked on in London which would tone down the wording.

The other problem in the war risk market is the approach by British insurers to the insurance of cargoes carried by ships. Clauses in Chinese insurance policies give cover for cargoes even if they are unloaded and placed in a lighter, small craft used for carrying the cargo to or from a ship. British underwriters do not offer this form of cover, insuring the risk only until it is discharged from the ship. In London underwriters are worried that if they accept the wording of the Chinese clauses they could face an enormous accumulation of risk on their policies.

The British argue that there is a risk that cargoes during transport to shore in certain troubled regions around the world face long delays before they can be fully unloaded. Moreover the risk they would have to carry on their insurance portfolios would be enormous, the British say.

A joint committee of the Institute of London Underwriters, with representatives from Lloyd's, is examining these problems and proposals are to be put to London underwriters.

John Moore

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Current
6th British Craft Trade Fair (0282 867153) (until May 14) — Harrogate
Business to Business Exhibition (01-729 0677) (until May 15) — Barbican Centre
London International Furniture Show (01-385 1200) (until May 15) — Earls Court

May 16-27
National Home, Garden and Leisure Show — LIFESTYLE (01-222 9341) — N.E.C., Birmingham

May 21-23
Heating, Ventilating and Air Conditioning Exhibition (021-705 6707) — Olympia

May 21-24
Chelsea Flower Show (01-834 4333) — Royal Hospital

May 30-June 8
Fine Art and Antiques Fair (01-385 1200) — Olympia

June 3-6
International Freight Industry Conference and Exhibition—WORLDFREIGHT (01-642 7688) — Met. Exhibition Hall, Brighton

June 4-6
Business Computer Show (01-643 8040) — Earls Court

June 11-13
Mexican Exhibition and Conference (01-600 0880) — Novotel, W6

June 4-6
Software Show (01-643 8040) — Earls Court

June 5-9
Bristol Boat Show (0272 299521) — Bristol Exhibition Centre

June 9-13
Shop Equipment and Display Exhibition — SHOPEX INTERNATIONAL (01-868 4499) — Olympia

June 10-14
International Mining Exhibition —MINING (0923 778311) — NEC, Birmingham

June 16-19
Royal Highland Show (031-333 2444) — Ingliston Showgrnd, Edinburgh

OVERSEAS TRADE FAIRS

Current
International Accessory, Machinery and Materials Fair for Furniture Production, Interior Decoration and Furnishing— INTERZUM (01-930 7251) (until May 14) — Cologne

May 14-18
International Telecommunications and Information Technology Exhibition — TELEMATIC (01-683 1158) — Kuala Lumpur

May 16-19
Roof and Wall Trade Exhibition (01-930 7251) — Cologne

May 21-23
Electronic Components and Equipment Exhibition—CEX (01-891 5051) — Hong Kong

May 27-31
Brazilian Textile Industry Fair—FENIT (01-486 8686) — Sao Paulo

May 28-31
Asian Water Technology Exhibition and Conference—AQUATECH ASIA (01-437 8404) — Singapore

May 31-June 9
International Air Show (01-439 3964) — Paris

May 31-June 3
International Trade Fair for Cosmetics, Health and Beauty Fair—COSMETICS (01-486 1951) — Munich

June 10-15
International Energy Conservation Exhibition and Conference (01-968 4567) — Shanghai

BUSINESS CONFERENCES

May 21-24
BIR: *Reclamation and recycling* —the world's most important exchange of secondary raw material (Brussels 02 217.82.51) — Paris

May 22
Institute of Directors: Pensions —an examination of current practice, potential developments and business and personal use (Saddleworth 6942) — Pall Mall, SW1

May 23
Seminars for Secretaries: One-day training seminar (01-935 7992) — Cafe Royal, W1

May 28-31
Dataquest European Semiconductor Industry Conference— "Winds of Change" (01-353 8807) — Hilton Hotel, Vienna

May 29-31
Asia/Pacific Duty-Free Conference (0737 68611) — Hyatt Central Plaza Hotel, Bangkok

June 3-4
FT Conference: Foreign exchange risk in 1985 (01-621 1355) — Hotel Inter Continental, W1

June 10-11
FT Conference: The Sixth Paper and Pulp Conference (01-621 1355) — Hotel Inter Continental, W1

June 11-12
EDANA: Italian nonwovens symposium (Brussels 02-734. 93.10) — Milan

June 12
Oyez: Supply, use and carriage of goods—the implications of the new dangerous substances regulations (01-236 4080) — London

June 14
Management Forum: The future of the pharmaceutical market in Great Britain (0483 570099) — Cafe Royal, W1

June 18
B. J. O'Connor International: Japanese materials management (0932 51334) — Holiday Inn, Heathrow

June 19-20
Offshore Conferences and Exhibitions: Offshore tubular joints 1985 (01-549 5831) — Heathrow Penta Hotel

June 19
Business Research International: Interest rate options (01-637 4383) — Park Lane Hotel, W1

June 26
Financial and Business Exhibitions: Strategies for innovation (01-493 0000) — Tara Hotel, W8

July 3
London Chamber of Commerce and Industry: "Venezuela—an oil economy. Prospects for British suppliers" (01-248 4444) — 69 Cannon Street, EC4

July 9-10
FT Conference: Oil industry developments (01-621 1355) — London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

UK NEWS

Environmentalists attack tropical wood importers

BY ANDREW GOWERS

BRITAIN'S tropical timber trada is bracing itself for trouble. The immediate source of the worry is at home, with what may turn out to be a vigorous campaign against tropical timber importers just launched by Friends of the Earth (FOE).

But its root cause lies thousands of miles away in the steaming tropical rainforests of Asia, Africa and Latin America. Conservationists have long been concerned about the alarming rate at which these forests are being depleted by commercial exploitation, clearance for agricultural use and domestic consumption of wood for fuel.

Suddenly, however, tha issue is on the political agenda in Britain – and FOE, which describes the rain forest campaign as its most ambitious yet, is determined to keep it that way for several years.

The London-based environmentalist group is pressing timber companies to agree to a voluntary code of conduct under which they would promote ecologically-responsible management of forests and felling practices.

It has also called on them to contribute 1 per cent of their profits to a Tropical Rainforest Preservation Fund and is urging consumers to try to avoid buying products incorporating tropical wood unless they are sure it comes from a properly managed forest.

As a result, the timber trade is worried that it will get caught between conflicting pressures: conservation-conscious consumers on the one hand and cash-hungry developing countries eager to maximise their timber exports on the other.

In a sense, the campaign has come at a curious time, just as the first inter-governmental trade and conservation pact on tropical timber, the International Tropical Timber Agreement, is falling into place.

But FOE appears to believe that this accord, which will come into force in June, lacks teeth.

On forest conservation, the figures it quotes are certainly alarming. Every year, FOE says, 20m hectares of tropical forest – equivalent to the surface area of England, Scotland and Wales – are felled. Since World War Two, almost half the world's entire tropical forest area has been destroyed, leaving a current total of about 9m square kilometres – a little larger than the U.S.

It has been estimated that, for every 13 hectares of closed hardwood forest cleared in the world, only one hectare is replanted.

This has far-reaching implications. Tropical forests provide a habitat for a staggering array of wildlife, many species of which are becoming extinct as a result of their disappearance.

They also play an important role in the world's climatic balance and in preventing disturbances such as soil erosion and floods in tropical countries like Brazil, Indonesia and Malaysia.

In a study of the UK tropical timber trade published to coincide with the campaign, FOE pins at least some of the blame on the UK, which remains heavily dependent on imports for its timber. Britain, it says, is Europe's third largest importer of tropical timber (in terms of the standard unit of timber measurement, roundwood equivalent), after France and Italy.

Jersey in French grid link

By Edward Owen in Guernsey

JERSEY plans to take all its electricity from the French power grid this summer if tests being carried out on a new cabla link go well.

The aim is to reduce the island's present total dependence on oil for generating electricity and to let local consumers benefit from Electricité de France's (EdF) inexpensive off-peak rates. Jersey plans to close its own power station at La Collette for the summer.

The £12.8m cable link has involved laying 28km of submarine cable between the island and the Normandy coast. The Jersey Electricity Company, in which the island Government is the principal shareholder, will continue to generate electricity between October and April, when EdF's rates are higher.

The cable is being tested to allay fears that being linked to the French grid might mean a less reliable supply. Jersey businesses are to make heavy outlays to prevent the loss of computer data and to protect electronic equipment from damage.

The only significant disruption foreseen is if the submarine cable on the sea-bed is severed.

Labour set for switch on housing policy

BY MARGARET VAN HATTEM

THE LABOUR Party is likely to end its long-held opposition to the sale of council houses to tenants.

A new housing policy document, unveiled at the weekend and which will go before the party's national executive committee next month, proposes that council tenants should have the right to buy their properties except in areas – such as some inner-city districts – suffering from a particularly acute housing shortage.

The document says that proceeds of council house sales would have to be used on improving and expanding the stock of council housing.

The new policy, drawn up by a joint committee of shadow Cabinet and NEC members, is a public admission of what many Labour MPs conceded privately at the time of the 1983 general election – that the party's opposition to sales was deeply unpopular with most of its own natural supporters.

Explaining the policy reversal at the weekend Mr Jeff Rooker, Labour's housing spokesman, said: "There is nothing particularly socialist about public landlordism on a grand scale – socialism comes in letting the people choose."

The document includes proposals to help with the process of buying or repairing a house, as well as moving house, aimed at cutting the expensive bureaucracy associated with valuations, surveys and conveyancing. It also proposes a right of appeal against building societies refusing a mortgage.

The policy is expected to run into left-wing opposition, both on the NEC and at the party's conference, on the grounds that council house sales reduce the stock available for the poorest; and that the best houses and flats are creamed off, leaving only the worst in the public sector.

The policy committee has attempted to pre-empt this by emphasising the need for a major expansion of home building in both the public and private sector, and insisting that council sale proceeds should be reserved for this.

● Mr Gerald Kaufman, Labour's shadow Home Secretary, yesterday defeated a left-wing challenge against his re-selection as Labour's candidate for the Manchester (Gorton) constituency.

The re-selection of Mr Kaufman, who has been a Manchester MP since 1970, meant that the Labour Party had broken the back of hard-left opposition to candidates, Mr Stuart Bell, secretary of a Labour moderate pressure group, said.

Lord Gormley

Campaign to promote jobs in coal areas

By Maurice Samuelson

LORD GORMLEY, the former president of the National Union of Mineworkers (NUM) and once a strong critic of his union's present leadership, is to join a national campaign being launched next week by 54 local authorities in mining areas to preserve and create jobs.

The campaign, to be launched in London on Wednesday, includes Lord Gormley among its sponsors, together with Lord Ezra, former chairman of the National Coal Board (NCB), Mr James Callaghan, the former Labour Prime Minister, members of other political parties, and leading churchmen.

Former Energy Secretary Mr Roy Mason, Labour MP for Barnsley, who has also disagreed with the present NUM leadership, is to preside at a House of Commons meeting on the same day to explain the campaign to peers and other MPs.

It was the Barnsley Metropolitan Borough Council which took the initiative in forming the new body, to be called Coalfield Communities Campaign.

● Besides calling on the Government to prepare a new energy White Paper (policy document) giving consideration to the role of coal, the campaign is demanding:

● Increased national and local initiatives to preserve and create jobs

● Injection of resources to overcome environmental problems caused by coal mining

● Better marketing and promotion of coal

● More EEC resources for the mining areas

● Recognition of social and economic priorities in deciding government policies on coal.

Tha campaign, with a budget of £20,000, has commissioned a series of specialist papers on the plight of the mining areas and the prospects for coal.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

The Post Office

Breaking down old barriers

David Goodhart reports on the corporation's efforts to adopt a business face

AWAY FROM the noisy public airing of the labour relations problems at the British Post Office, a no less profound transformation of management structure and practice has been under way for 18 months.

The corporation is now—15 years after separation from formal government control — severing its final links with the Civil Service and coming of age as a business. In the process it could be making itself a more attractive proposition for privatisation.

Since hitting a low point in morale and performance in the late 1970s the Post Office has certainly picked up in profitability over the last five years. In 1983 it made £131.6m and last year £116.9m. It also paid the Government £225m in "negative external finance limits" in the last nine years with another £70m due this year.

The £100m computerisation of office counters, the success of Datapost and other competitive premiums services, the growth of electronic mail, the increasing investment in new sorting technology and a new stress on taking services to the customer —have all helped to drag the organisation into the 1980s.

However, even if the Post Office is the only one in Europe to be profit-making and self-financing, its management systems have remained sleepy and cumbersome and productivity is only back to late-1960s levels.

The 1984 Monopolies and Mergers Commission Report—a sacred text in Post Office management circles — was as scathing about the lack of modern management information and control methods as it was about the absence of proper work measurement in the sorting offices. The latter point—along with other industrial relations headaches — should be sorted out at the Union of Communication Workers' annual conference this week, assuming the past few weeks of brinkmanship have done enough to change activist opinion.

Changing the management culture from an administration to a real business could take a little longer—although the new structure, first spelt out in an internal review two years ago by John Kibble, a senior official, is now more or less in place.

The aim of the changes was badly spelt out in an internal management memo last year. "At all levels in the corporation we see the need for being hard-nosed, more commercial, and being even more responsive to the needs of the customers of our various businesses." Another memo described the organisational changes as reflecting the structure "in most successful very large businesses whether they are in the public or the private sectors."

Three themes underlie the changes: the building of far more functional channels of communication and command stretching from the local Head Post Office (HPO) to the national headquarters: a stronger product focus and the devolution of more management and financial accountability to the HPOs.

The oPst Office is now beginning to turn its back on the old "generalist" management philosophy inherited from the Civil Service.

Ironically, Sir Ron Dearing, Post Office chairman and architect of many of the reforms, appears the model of the discreet, disciplined mandarin, which indeed he was until he gave up his senior position in the Industry Department to take over the oPst Office in 1980.

The generalist tradition he perhaps naturally regards as "not stupid," but equally having had only 20 accountants in 1980 in an organisation with 180,000 employees and an annual turnover of near £2.7bn, may not have been clever. There are now 85 with 100 undergoing training.

In the past a manager might move in the course of a career from finance to personnel to Royal Mails operations and back again. Now, managers will have a double focus of loyalty both to the corporation and their professional specialism.

Career and command structures will operate "vertically" from, for example, sales reps in the HPO areas to the regional marketing director and the board member for marketing. Generalists will not disappear entirely nor will be "horizontal" structures in the regions and HPO's become irrelevant.

These organisational changes were preceded at the beginning of last year by a board reshuffle and the sparation of the counters into a separate business. For the first time board members were created for finance and counters. They joined the board members for personnel, marketing and the heart of be operation—Royal Mails. (National Girobank is an independent business and part of the deputy chairman's responsibilities.)

The board level changes are designed to promote more strategic management planning as is the new emphasis on the separate "products" within the mails: letters, parcels, premium services and overseas.

The board considered splitting them into different businesses but decided against, at least for the time being, and has stopped at separate "profit centres."

The other, and possibly most significant, change introduces full financial accountability at HPO level. (The number of HPO's which has already come down from 480 in 1965 to 175 now, is due to fall still further to 130.)

Until very recently a head postmaster received many of his services—such as catering, motor transport and engineering —free from the region or headquarters.

Sir Ron clearly finds such a concept offensive. "I think free issue is evil," he said. "It diminishes somebody in their job." Some HPOs have had 40 per cent of their costs covered by "free issue" although the average has probably been closer to 20 per cent.

To the unions the changes look very similar to those introduced in BT before privatisation. Union officials point to the coincidence between the hiving off of BT International prior to privatisation and that of counters in the Post Office.

Privatisation of Girobank—possibly along with the counters —is clearly considered a possibility by both unions and management, although wholesale privatisation of letters remains unlikely at least until after the next election.

Bob Cowley, general secretary of the Communication Managers Association, sums up the union position: "Current developments within the Post Office would certainly make the path to privatisation far smoother if the Government decided to take it."

Post Office businesses that have been affected by competition have in recent years generally fluourished. Parcels, for example, were losing about £50m on a turnover of £70m in the mid-1970s but after narrowly avoiding the axe last year made a profit of £19m.

Datapost—which takes about 10 per cent of its market—and most of the other premium services are also doing well. However, they are all physically inextricable from the vast rambling transport business which is the monopoly mails operation.

Apart from e now resolved row over the status of engineering grades in the reorganisation, John Kibble's report has so far met little resistance. That may not be surprising in that the most direct effects have fallen upon quite senior staff but the package does involve considerable disruption to the traditional managerial way of life in a very traditional organisation.

The unions have been divided on the changes with the main union affected by them—the CMA management union—accepting an agreement giving its members improved movement terms.

Sir Ron says the changes, though radical, fell short of the alternative "big bang" shake-up but implementing them after five years of relative success has helped ease the pains.

He actually waited two years into his chairmanship before beginning the re-think. "As befits a venerable body like ours we considered our entrails with due reverence before knifing them."

How far the knifing operation will affect daily life will become clearer in a few months' time. But if the labour relations reforms should create an immediate improvement in the still lagging quality of mail service, the management reforms—in effect the second leg of the MMC report recommendations — should markedly increase profits and business.


Sir Ron Dearing: "We considered our entrails with due reverence before knifing them."

ALTHOUGH the Post Office is trying to devolve some decision making and give managers greater responsibility it is inevitably constrained by the nature of the business. As it is a nationwide postal system most of the key decisions have to be taken at the centre and then implemented across the country.

The two most important challenges which face the management are how to sustain or increase the volume of mail and how to achieve greater flexibility and efficiency from a deeply conservative workforce.

The problem is this: the Post Office has very high fixed costs in maintaining a nationwide network. If mail volumes fall, as they did in the 1970s, unit costs and therefore prices rise. That creates a downward spiral of lower volumes and yet higher prices. Through more aggressive marketing the PO has tried, with reasonable success, to create a "virtuous spiral" in which volumes increase and prices can be contained within the general rate of inflation.

Any attempt to tackle its costs means changes for the workforce. Nearly 80 per cent of the PO's costs are the salaries, pensions and insurance of its employees. Over the last three years it has had some success in buying out the excessive levels of overtime worked—a product of low basic pay with a generous productivity deal.

The desire to employ more part-time staff reflects the cyclical nature of the PO's day. Most of the work is compressed into two great rushes: one early in the morning for the deliveries and the other late in the afternoon when most letters are posted for collection.

Ironically the PO management itself was responsible for cutting part-timers from 14,000 to about 8,000 in a past economy measure. The need for part-timers is greater now because the reduction in weekend working has also removed flexibility from the different shift patterns.

Post Office management has hailed the agreement with the union as a historic event—although it is yet to be ratified—because it will be the key to using new technology as well as responding to the threat from new forms of communications. Last year a critical report by the Monopolies and Mergers Commission warned the PO that if it did not solve its problems and adopt modern management methods it would be unable to meet competition from other forms of communications.

The threat of electronic mail, billings and payments has long been a worry of all postal administrations, even if it is taking much longer to materialise than once predicted. At the same time the PO is in a position to exploit similar technology through its own extensive — if old-fashioned—retail chain.

Like a giant liner the Post Office is taking a long time to change course. Some managers who have been geared up for great changes and—if necessary—confrontation with a reluctant workforce are beginning to get frustrated by compromises and the lack of progress.

Jason Crisp

How to 'punch through walls'

Christopher Lorenz on characteristics of intrapreneurial leadership

WHY DO some soccer teams go for months without winning on their home grounds, when they always win "away" matches? Why did it take eight long years for post-war athletes to run a four-minute mile, when they had previously been approaching it rapidly, and when 80 people did so in the two years after Roger Bannister's momentous race in 1954?

Tho answer, according to Sven Atterhed, a Swedish consultant, lies in a lack of mental "goal picturing" (no pun intended). For something to become possible in tho real world, it must first be made possiblo in the mind. "We have all sorts of walls that we have to punch through."

Training in the techniques of goal picturing, and thereby the achievement of peak performance, will soon become a major source of competitive advantage in tho business world, Atterhed maintains.

To prove his theory, Atterhed recently persuaded a conference room full of hard-headed executives to dangle wedding-rings and Polo-mints from threads held between their thumb and forefingers, and — without moving—will the objects to swing in particular directions. It worked.

A founder-partner of tho ForeSight Group, a Scandinavian consultancy which specialises in training "intrapreneurs" (big business bureaucrats who want to become entrepreneurial), Atterhed argued that "only one per cent of people know what they want —and they get it." The rest had "fuzzy" pictures of their objectives—and their achievements were fuzzy, too.

Goal pictures for entire teams of people, whether on the soccer field or in business, must be positive, challenging, exciting and specific. And they must be achieved in common, Atterhed told the conference, which was organised by Management Centre Europe. Just aiming at "don't be beaten by the competition," or "make an eight per cent return on investment," was a totally inadequate sort of vision. Neither formula was sufficiently challenging or worthwhile.

The creation of joint visions forms a key part of tho training in "entrepreneurial leadership" which Atterhed's company offers. Ulf Lomander, a senior executive of Uddeholm Tooling and one of Atterhed's first clients, told the conference that the absence of such training nearly torpedoed his company's attempts to develop intrapreneurship.

Companies should not try to unleash entrepreneurship in an uncontrolled fashion, Atterhed warned. Each organisation should establish its own framework: "a beautiful idea for Siemens might be a terrible one for Unilever."

Pressed to justify his jargonistic use of the word "intrapreneurship," rather than plain old "entrepreneurship" (which is bad enough in itself), Atterhed said the entrepreneur within a large corporation not only needed the small business-person's three main characteristics (vision, commitment, and being a purposeful "doer"), but also a special set of social and diplomatic skills.

While financial rewards and a climate which encouraged risk were important stimulae to entrepreneurship, Atterhed claimed it would be wrong to see money as the prime motivation. Equally, entrepreneurs did not have to be hell-bent on risk-taking. Money's main purpose for the entrepreneur was "keeping the score" (of success), and the good entrepreneur was only prepared to take risks if they could be calculated.

According to a study carried out earlier this year by the ForeSight Group, in conjunction with Arthur Young and the Institute for Innovation, 84 per cent of executives in large U.S. companies believe that their companies should create an entrepreneurial environment in order to encourage innovation, but only 50 per cent believe their organisations will actually do so.*

* *Innovation: the Agenda for American Business. From Cesar L. Pereira, Arthur Young, 277 Park Avenue, New York, NY10172. Tel 212-407-3400.*

Company Notices

ACCOR

Societe Anonymn incorporated with limited liability in France

2 Rue de la Mare Neuve
91021 Evry, France

Notice to the holders of the US$40,000,000 7½ per cent Convertible Bonds due 1989 of Accor

CORRECTION TO THE NOTICE PUBLISHED ON APRIL 24, 1985 AND ON APRIL 27, 1985

Notice is hereby given by the Board of Directors of ACCOR to the holders of the US$40,000,000 7½ per cent Convertible Bonds due 1989 of ACCOR that, it has decided to cancel its decision to suspend the right to convert the Bonds into ordinary shares of ACCOR from May 14th, 1985 to August 13th, 1985 included.

To Holders of
Blocker Energy International N.V.
8¼% Convertible Subordinated Guaranteed Debentures Due 1995

Notice is hereby given that a meeting (the "Meeting") of holders of 8¼% Convertible Subordinated Guaranteed Debentures Due 1995 (the "Debentures") of Blocker Energy International N.V. will be held at the offices of J. Henry Schroder Wagg & Co. Limited, Investment Division, 36 Old Jewry, London, England, 8th floor, on June 4, 1985 at 2:00 o'clock, London time (the "Meeting Date").

The Meeting has been called by J. Henry Schroder Bank & Trust Company ("Schroder"), indenture trustee (the "Trustee") for the holders of the Debentures, pursuant to and as trustee under the indenture (the "Indenture") dated as of July 1, 1980 between Blocker Energy International N.V. as issuer, Blocker Energy Corporation as guarantor and Morgan Guaranty Trust Company of New York ("Morgan") as indenture trustee. Schroder succeeded Morgan as indenture trustee on October 15, 1982.

The Debentureholders have previously been advised by publication of the existence of an Event of Default as defined in the Indenture for failure to pay interest due and owing on the Debentures. As of this date, the principal amount due and owing on the Debentures has not been accelerated.

The Meeting has been called for the following purposes:

(1) For Debentureholders to consider giving such directions to the Trustee as may be lawful and proper as to the time, method and place of exercising its powers and responsibilities in light of the aforementioned default in payment of interest.

(2) For Debentureholders to take any other action and to transact such other business as may properly come before the Meeting or any adjournment thereof.

Debentureholders who wish to attend the Meeting, whether in person or by proxy, shall submit to the Trustee at the Meeting proof of their holdings, such proof to consist of:

(i) Presentation of their Debentures; or

(ii) Presentation of a certificate from a bank or trust company which is a member of the New York Clearing House Association or a correspondent of such a member, stating the amount and (unless the bank or trust company has the Debentures on deposit with Cedel S.A. or Morgan Guaranty Trust Company of New York, Brussels Branch, as operator of the Euroclear System (the "Euroclear Operator")) the serial numbers of Debentures of the holder on deposit, along with a statement that the Debentures will not be released from deposit until after the date of the Meeting; or

(iii) Presentation of a certificate of Cedel S.A. or the Euroclear Operator that the Debentures are on deposit with either of them, and that they will advise the Trustee of any transfer of such Debentures on or prior to the date of the Meeting; and

(iv) If the holder does not appear in person at the Meeting, a proxy in a form approved by the Trustee.

Forms of proxies and certificates may be obtained from the Trustee at its Corporate Trust Department, One State Street, New York, New York 10015, Attention: Stock Transfer Window.

Debentureholders and holders of proxies shall provide at the Meeting proof of identification satisfactory to the Trustee.

Questions concerning this notice should be directed to George R. Sievers, Senior Vice President, J. Henry Schroder Bank & Trust Company, One State Street, New York, New York 10015, Tel. (212) 269-6500 or Joseph Chervin, Esq., Rosenman Colin Freund Lewis & Cohen, 575 Madison Avenue, New York, New York 10022, Tel. (212) 940-7160, counsel to the Trustee.

Dated: May 6, 1985

J. HENRY SCHRODER BANK & TRUST COMPANY
as successor Indenture Trustee

THE ARTS

LPO/Festival Hall

Paul Driver

The London Philharmonic Orchestra's Conductor Emeritus, Sir Georg Solti, directed it on Friday night in a programme of solid popular appeal — Stravinsky's *Firebird* suite, Schumann's piano concerto and the first symphony of Brahms. *Throughout*, he secured impressively sonorous and assured playing; and the evening's touch of distinction was given by soloist Murray Perahia.

The Firebird was heard in Stravinsky's 1919 version for moderate rather than huge orchestral forces, and happily made to sound even more translucent than one would thus expect. The felicities of the orchestration registered themselves afresh; the soft, lyrical textures were magical and cajoling and the loud hard ones appropriately gripping; while the whole six-movement structure was compactly moulded. But the scale of the performance had somehow been reduced to that of a mere overture.

An apparent reduction of the Schumann concerto to the scale of chamber-music was indicated by Perahia's intimate, profound and irresistibly limpid unfolding of its piano part. Yet the hidden power and wonderful intelligence of his playing easily communicated the work's symphonic weight and proportions. His collaboration with Solti was entirely sympathetic: the orchestra matched the pianos clarity of texture and sophisticated play with dynamics (the strings were silken in the unforgettable Andantino grazioso); the tempi were always in agreement, mobile, and right. The intently focused Allegro vivace last movement, made glinting and mercurial by Perahia's virtuosity, confirmed one's impression of hearing the work as it really is for the first time.

Solti's Brahms was warm, full-blooded, strenuous, forthright, full of upheavals, and predominantly loud. It was not mellow, musing, seductive, variegated, or full of surprises. The individual playing was clean and stylish even when the ensemble was very fulsome and like a rich fabric. Perhaps this is the secret of the "Solti sound"? We certainly had a glamorous burst of that at the appearance of the finale's famous tune. I enjoyed the performance.

Philharmonia/Festival Hall

David Murray

Appearing with the Philharmonia Orchestra on Thursday were the young Finnish conductor Esa-Pekka Salonen, one of the brightest *discoveries* of the past year or two, and the pianist Mitsuko Uchida, already a household name among Mozarteans. They collaborated in the Third Piano Concerto of Bartók (Miss Uchida is by no means a one-composer *acolyte*), and Salonen offered both Debussy and the knottiest Bruckner symphony, the Sixth. With a wealth of fresh ideas everywhere, and the Philharmonia responding eagerly to Salonen—he has a gift for reviving the full warmth of their strings—it made an immensely lively and challenging evening.

Apart from the fresh, committed attack that gave a keen musical edge to every piece and every movement, there were tantalising little departures from established style that forced one to re-hear the music. Debussy's *Après-midi d'un faune*, for example, was kept well below Debussy's tempi—daringly extended pauses made one hold one's breath—and became an out-of-time impression of Impressionism. The playfulness vanished, as did the overtones of Massenet in the central section: not in favour of balletic passion, which is common (and vulgar) enough, but to retain the whole sensuous dream in cool suspension. Yet it didn't wilt, for Salonen set the tidy, ingenious form of the piece in clear relief.

Bartók was quite different. Miss Uchida established the tone at the start, unhurried but sharply precise, with hints of urgency in the roulades that ornament the main tune. Each new section had an inquiring stamp, as if the artists were determined to overlook nothing that the score might conceal; in the development the pianist allowed herself a big *espressivo* in the octave-tune—hardly Bartokian, but extremely telling in the context—and the strings, very forward, discovered extraordinary things in their parts. The Adagio religioso was deliberately constructed (the "night music" candidly stylised, not smudged into sound-effects), and it rose to a powerful *height*. The Finale, tough and exciting, had unusual conviction.

Salonen's Bruckner Sixth lacked none of the breadth and patina that senior interpreters assign it, but it had a rare intellectual energy. The opening Maestoso was fast, its many subjects so vividly characterised that they seemed incompletely reconciled even at the end. The Adagio, however, was sternly held and eloquent, and the Scherzo a tour de force of slightly baleful power. The careering drive of the Finale took wild chances, impressively secured by steely conviction.

Architecture/Colin Amery

The strange American School

As the American Festival breaks over the capital, a group of some of the strangest modern architects in the world have taken the opportunity to show their wares in London. *The American School of Architecture* (Heinz Gallery, 21 Portman Square, W1, until June 8) displays the work of a group of disciples of the late Bruce Goff. Now, Goff is almost totally unknown in this country despite the fact that he was one of the most original of America's 20th-century designers. He practised until his death a few years ago, mostly in that unknown territory known as middle America.

Oklahoma, Texas, Illinois and Kansas were his stamping grounds. He went about in floral shirts and clothes that he created himself, and designed houses for the aspiring aesthetes of Tuscaloosa. He saw himself as a follower of Frank Lloyd Wright and Louis Sullivan and what has become known as the American School. But what are the characteristics of this school, if school it is?

The organisers of this exhibition suggest that what is American about the work on show is a sense of freedom to do exactly as you wish, a liberty in design that reflects the vigorous independence of the American spirit. It is certainly true that the kinds of recent examples of American architecture shown in this exhibition could not be built anywhere else. The freedom utilised by this group of architects is as much practical as ideological. The states of middle America have much looser building codes than most Western countries and, clearly, aesthetic standards are different too.

This kind of indigenous architecture is fascinating and strange to European eyes. It is not the Americanness of apple pie that we are asked to admire but the kind of mildly loony independence of several architectural cowboys. They scarcely form a school, because the only thing they have in common is a rampant originality. But this is what makes this an exciting exhibition; indeed, there are moments when, under the influence of an hallucinogen, these organic forms would begin to assume lives of their own.

Some very interesting things happened to American architectural students in the 1960s and early 1970s. Many of them, trained at expensive Ivy League schools, decided to abandon the rat race of commercial practice and erect buildings with their own hands. They moved to Oregon or California and became carpenters, mystics and real backwoodsmen. It is their influence that can be seen here as much as the influence of the lonely figure of Bruce Goff.

The full effect of the drop-out architect has yet to be assessed but, somehow, it seems all so old fashioned now—a stretching-out in the sunny freedom of the Sixties before the shadow of Reagan's harsh monetarism made every architect a businessman.

I thought it a great shame that the drawings of Goff himself were not included in this exhibition. There are only the children without the father and, sometimes, it is like looking at a bunch of weird orphans.

Arthur Dyson is one of the architects who typify the movement. He is in his forties. California-born, and educated under the wing of Wright at the University of Oklahoma. His design for an architect's office in Fresno, California, looks exactly like the skeleton of a beached whale. The long, thin, projecting roof is curved like a backbone and flipped up at the end in a frisky tail.

Herb Greene is probably the best known of these organic architects outside the USA. He designed that strange house in Oklahoma that resembles an armadillo wandering across the plain. His post office for Norman, Oklahoma, has much more solidity and owes a lot to the work of Saarinen. A huge, all-embracing shell covers the mundane activities of stamping and posting the mail. There is some uncertainty about the shell—it looks as though it could lift off and fly away, taking the air letters with it.

Robert Faust's house for Dr and Mrs Watts is a kraal of glazed igloos that cluster around the main rooms of the house. And what are you to make of the work of Bart Prince, the last pupil and partner of Goff? His drawing for a residence tower for Albuquerque, New Mexico, has all the power of the work of the Italian Futurists. Prince now is finishing Goff's last project, the Japanese Pavilion at the Los Angeles Museum of Art, where many of the maverick ideas of this old master will be enshrined permanently.

There is a lot of power in the work of Eugene Tsui, a very young architect who is applying his studies of the structures of nature to the science of building. The house known as Casa del Mar is a cross between a space fantasy and the underwater movies of Jacques Cousteau. Rooms are allowed to float freely on the water and you swim from one to another like a frog among water lilies.

While the ideas may be wild and refreshing, there can be no doubt about the quality of the draughtsmanship. The feeling that you are walking through the pages of a science-fiction novel or the set of *Bladerunner* should not put you off a stimulating architectural experience. Americans may appear to speak the same language but this show demonstrates that it is very much a foreign country and they do things differently.

Blood Relations/Derby Playhouse

Michael Coveney

In a programme note, Canadian playwright Sharon Pollock recounts how she took herself and her children away from a violent husband. Killing him had crossed her mind. So the legally unattributed New England axe murders of 1892 serve the feminist purpose of suggesting that Lizzie Borden ("Who gave her mother forty whacks") was brought to the boil by her father's insensitivity towards not just her pet birds, but also her free spirit and her womanhood.

Miss Pollock also offers a study in domestic claustrophobia and temperamental antipathies. Lizzie loathes her stepmother whom Venetia Barrett portrays as a stupefyingly dull bustled baggage of a domestic creature; and she gets wind of father's plan to cut her out of the will and hand over the farm to her unscrupulous, obese and patronising uncle; in addition, her friendship with a married clergyman is a source of bickering and condemnation.

Lizzie's father and stepmother were found hacked to pieces one bright Massachusetts afternoon. Lizzie was arrested and acquitted at the trial. *Blood Relations* divides the action between the time of the murder and an encounter, 10 years later, in the same house between Lizzie and her actress friend, a factual liaison elaborated into a fictional love affair. Ingeniously, Miss Pollock gives us two *Lizzies*: the bright, impulsive, cornered incipient spinster (Barbara Ewing) with generous bubbling voice and tumbling spun gold hair, and the hatchet-faced older Lizzie (Maggie Ford) grimly dancing with the actress to a Joplin rag while still, after all those years, sidestepping the leading question.

For the younger Lizzie, Miss Ford switches to the support accomplice role of Bridget the maid, while Miss Ewing opens proceedings as the actress and enriches what might otherwise seem an over-schematic piece (an occasional hint of play-writing by numbers) by doubling as both the actress and a reproving mirror image of her own sour and disappointed Lizzie persona.

There are one or two scenes that Flora Fobson might have done justice to: the moment when Lizzie's frustration yields to a sense of paternal betrayal and the sudden release of buried affection as she cradles her unexpectedly returned father to sleep before raising the machete magisterially above her head.

Angela Langfield's production, abetted by the notable lighting of Kim Nichols, combines good acting in the lead roles with an original mix of feminist purpose and bloodcurdling eeriness. Norman Coates's design encases the fateful farmhouse in white clapboard and an autumnal path exterior of logs and fallen leaves.

Fires of London/Elizabeth Hall

Paul Driver

Thursday's Fires of London concert was interestingly composed in four parts. The ensemble's presiding spirit Peter Maxwell Davies (who was not present in the body, being currently in residence at Harvard) was represented in the opening pair of specially arranged Bach preludes and fugues, in the triptych of short musical tributes to Sir William Glock which made up the third part, and in the fourth part—a performance occupying half the programme's length of his song-cycle *The Blind Fiddler*. The second part was the première of a comissioned work by Bayan Northcott, simply titled Sextet.

This was certainly the highlight of the occasion. The piece is two movements scored for the standard Fires combination of flotes, clarinets, piano, percussion, violin and cello. There is a prominent role for the piano (Stephen Pruslin), and the percussion part brings a wide variety of sonorities (crotales to snare drum) into noticeably effective play. The first movement is a slow "sonata," moving back and forth between an Adagio Maestoso tempo and one slightly faster—the material at both speeds being strongly characterised and the overall argument correspondingly easy to follow.

While Northcott admirably cleaves to an ideal of musical reasoning, his textures and harmonies are nonetheless satisfyingly sensual: *carillonando* is several times marked on the score, applying in this movement to memorable chordal sequences of the piano as also to its linear and lyrical solos.

The second movement is a brilliantly fast rondo: it has scintillating counterpoint, subtla harmonics, and real speed. There is a sudden brief cello solo, which was quite well taken by Jonathan Williams, a kaleidoscope continuo of percussive sounds (Mark Glentworth) and tutti writing of thrilling complexity. The players were almost defeated by the latter; but in spite of the want here, and earlier, of more sharply etched detail their performance (conducted by Nicholas Cleobury) got the vivid and magnatives message across.

The three Glock homages were by Elliott Carter (*Canon for 4*), Pierre Boulez (*Dérive*) as wel as Davies (*Unbroken Circle*). They are rather substantial *miniatures* and, in the case of Carter and Davies, neat atylistic epitomes; the Boulez—I'm not sure whether or not because of a weak performance—puzzled me with what seemed like its treacly waves of arbitrary sound. Performance of the preludes and fugues had been shoddy; *The Blind Fiddler*, sung by Mary Thomas, was done with much more care.

GLC gives 5 per cent more

The GLC is increasing its subsidy to all its four major clients — English National Opera, London Festival Ballet, London Orchestral Concert Board and the National Theatre — by 5 per cent for 1985-86.

This welcome rise gives the ENO £1,071,000; the Festival Ballet £1,018,500; tha LOCB £787,500, and the National Theatre £798,000. In addition the National has received an extra £375,000 to enable it to re-open the Cottesloe in tha autumn.

Orlando/Theatre Royal, Glasgow

David Murray

For the Handel tercentenary, Scottish opera has a new production of his *Orlando* (1733) by Christopher Fettes. At Wexford a few years ago, it was staged in the tentative modern convention for making the stately Handelian genre palatable to audiences raised on later, quite different stuff. The Fettes version is something else, perversely personal to a degree. It isn't really a production of the opera; rather, it co-exists with the opera — a private phantasmagoria (or farrago, according to taste) that proceeds in uneasy tandem with an excellent musical performance.

Handel's story is derived, very baldly and with some sacrifice to decorum, from the once-famous *Orlando Furioso* of Ariosto. It reduces to the usual Handel daisy-chain with knots: Orlando loves Angelica who loves Medoro who is loved by Dorinda, all these relations being intransitive except Angelica-Medoro. For once nobody feigns a change of sex, and the crisis is generated simply by Orlando's going mad; Ariosto's raw pathological details are suppressed in favour of treating the whole *histoire* as something got up by a benevolent magician, Zoroastro, as an explatory test. Apart from his interventions, and a grand, lacerating *scena* for the hero, *Orlando* is a sequence of arias of sentiment — wistful, rapturous, grieving, vengeful.

Fettes permits all that to go on, generally in the foreground, though the remarkable anti-duet for Angelica (grieving) and Orlando (vengeful) is set on facing side balconies and thus half invisible to some of the audience. The principals play out the tale straightforwardly, if mostly in white-face (Orlando's bald patch remains pink, and Dorinda seems to have bargained to keep her complexion at the price of an unexplained limp). But they are *perpetualy stalked* by a silent, haggard Eros with black glasses and white cane; and behind and around them wander young dancers, infinitely languid and self-conscious, with dyed post-punk hair and dress evocative of colour-supp, decadence (and maybe *Vulcan* or *Mister*).

Sometimes they pass for doubles or triples of one character or another, sometimes they just do things that presumably the choreographer Ian Spink likes watching them do; in Act 3 they become Red Cross nurses and war-wounded. The singers show distinguished professional restraint in not *booting them off tha stage, for* most of the arias have to compete with their mazy evolutions. At the end the angels sprout wings and reveal a *tableau vivant* with Eros perishing under the scythe of Death.

Antony McDonald's three-sided set, majestic and peculiar, consists of balcony-and-pillars above and continuous mirror-*doors below. The central court*yard is variously occupied by a four-poster bedroom (*sic*), bare *formal* trees, and a hospital ward with dated equipment. Fettes' programme-note remarks meaningfully that Frederick the Great was "known throughout Europe in Handel's lifetime as Orlando Furioso" (well, maybe: but when *Orlando* was composed young Fred was 21), "the *architect of a process that was* to reach its climax, etc etc . . . in the Hall of Mirrors at Versailles in 1870!" This isn't interpretation, but free association — and to explain is not to pardon.

Richard Hickox conducts with fervour, making especially imaginative use of string-colour, though slower music sometimes sounded external, un-felt. Orlando and Medoro are here counter-tenors: James Bowman's expressive range, strong and virile, fell short only in the great *scene* (against fearful onstage distractions), and Timothy Wilson's lighter, brighter timbre made a perfect *contrast*. *Stephen* Varcoe has the intelligence for Zoroastro, if not the mature weight. Eiddwen Harrhy's Angelica is assured and subtle; Lillian Watson is an irresistible Dorinda, equal to the rich variety of her music and dewily fresh.

Poro/Birmingham

Stanley Sadie

For the Handel tercentenary year the Barber Institute of Birmingham University got out and dusted over their Handel opera tradition, which had flourished so well under tha late Sir Anthony Lewis. The choice was Poro, which has apparently been revived only once in this country since Handel's day (Abingdon 1966) but must have a claim to be in anyone's top ten Handel operas.

It starts with tha advantage of the beautifully formed, happily contrived libretto from the ten of the young Metastasio —*slightly de-formed*, it *is* true, by Handel's arranger, to reduce the recitative and adjust the emphases (perhaps to meet a more northern ethic), but still full of the strong situations and ingenious imagery that could provoke, rich varied music. It is about tha bellicose exploits of Alexander the Great in India, who jealously loves Cleofida, Queen of another part; Alexander's repeated acts of magnaminity and clemency maka a Titus look positively tyrannic.

Poro dates from 1731. The period of Handel's great succession of heroic operas was past; but the new singers for his Second Academy "gave birth," Burnley truly said, "to new ideas and a new style." *The score* is *full* of novel and inventive things, many of them in the orchestration, some in the unexpected twists of the melodic lines or the harmony. There are a couple of simila arias of exceptional beauty (one nautical, for Porus, with recorders and horns, the other an exquisite pastoral for his sister Erissena), whila Alexander has a magnificent hortatory piece, a brilliant, sumptuously scored aria, the kind of Handelian equivalent to Idomeneus's "Fuor del mar." There is also an extraordinary *ironic scene* whare Porus and Cleofida quote back at each other their earlier protestations of eternal fidelity.

Tha chief virtues of the Birmingham production by Jocelyn Powell (who also translated), laid in its directness and simplicity; the music was let speak on its own terms, without interference or distraction. The characters stood there and sang. Arguably, restraint was overdone: I should have liked to see more fluidity of movement and gesture, more sense that people were expressing something. Diana Duncan's sets—an abstract backcloth, with literally elephantine side-flaps—were not unattractive but related thinly to the style of the work.

Poro is ona of Handel's few operas with a heroic tenor part. This, Alexander's, was sung tastefully and vigorously by *Martyn* Hill—a bigger impersonation than I have heard from him before, Cleofida was done in a straightforward manner by Gillian Fisher, a dependabla stylist who produced some intensity of expression as well as constantly clean singing. The counter-tenor, Robert Martin-Oliver, is a little unfocused tonally, often sang incisively and sometimes movingly as Porus. I enjoyed Brian Gordon's clear counter-tenor line in Gandartes' music as Penelope Walkar gentle Erissena, while John Hancorn brought a firm, warm bass to tha rola of Timagenes (restored by tha aditor).

Prof Ivor Keys, conducting, was in slightly uncertain form on Thursday, letting tempos flag and having difficulty in controlling ensemble. The opera was given uncut, lasting close on four hours — praiseworthy, but longish in *the austere* Barber Institute, where no refreshment is to be had and even the later in the loos is firmly labelled unfit for drinking.

Margaret Jenkins/The Place

Clement Crisp

A Festival of American Arts is under way at the moment, but there is little festive about the activities of the Margaret Jones dance company which I saw at The Place on Friday. *Coming* so soon after the drear manifestations of Stephanie Skura and Lisa Krauss, on which I lately reported, the Jenkins troupe seems yet another example of American dance's parochialism which it is unwise to export to a larger public.

Miss Jenkins is a school-of-Cunningham practitioner from San Francisco, and her programme provided two works rich in those scribbles of random movement that are like tha scrawl of an unlettered hand. In *First Figures* the six members of her ensemble are hideously garbed in greyish street clothes, their faces daubed with paint, their appearance generally dusty, though no dustier than the answer given by Miss Jenkins' dances to tha viewer's quest for choreographic certainties or hopes of purpose behind tha graffiti of her style. I hazard that the piece refers to people remembering a disaster — and not merely tha disaster of what they perform—but Miss Jenkins' bland, blank choreography danies them any expressive validity, even on the scrappily allusive terms through which their behaviour is seen to operate.

Two men, four women indulge in runs, falls, burst of energy and little gestures, to an accompaniment of incomprehensible chatter: tha usual alchemic experiment of post-modernism is again successful in transmuting leaden ideas into leaden dance.

The second work, *Inside Outside*, offers a stage decorated with Corinthian columns, obelisks, reflecting metal shapes and six dancers in white, their occupation being the subversion of pattern, the breaking of order and the inversion of distorting of movement. The idea is fascinating, its realisation in Miss Jenkins' dim dances rather lika an exhaustive game of "Don't follow my leader." Flurriea of movement, self-obsessed mime, arid little encounters, are the stuff of a piece which, like its companion, has the appearance of a studio exercise over - optimistically transferred to tha attentions of paying customers.

The best thing about it is the recording of church bells which form a large part of its soundtrack. Send not to know for whom the bell tolls: it tolls for the choreography.

Arts Guide

May 10–16

Music

PARIS

Nouvel Orchestre Philharmonique conducted by Marek Janowski, Valery Afanassiev, piano: Brahms, Beethoven, Reger (Tue). Radio France, Grand Auditorium (5241516).

Orchestre de Paris with Daniel Barenboim as conductor and pianist: Mozart Festival (Wed). Salle Pleyel (5610630).

LONDON

Issac Stern, violin, and Jean-Bernard Pommier, piano. Mozart, Bach, Fauré, Szymanowski and Ravel. Royal Festival Hall (Mon). (9283191).

WEST GERMANY

Berlin, Philharmonic: The Berlin Philharmonic Orchestra, conducted by Reinhard Peters, offers a German premiere of Kagel's concert version of Die Erschöpfung der Welt. (Tue, Wed).

ITALY

Milan, Teatro alla Scala: The Tenor Francisco Araiza accompanied by Irwin Gage singing Schubert, Fauré, Ravel and Richard Strauss. (Mon). (809126).

NETHERLANDS

Utrecht, Muziekcentrum Vredenburg. Hubert Soudant conducting the Utrecht Symphony Orchestra, with Mischa Maisky, cello. Dvorak, Stravinsky (Tue); Utrecht Symphony Orchestra under Hubert Soudant, with Melanie Horne, piano. Mozart, Beethoven (Wed). Recital Hall: Keiko Abe, vibraphone (Wed). The Warne Marsh Quartet (Thur). (314544).

VIENNA

Francisco Araiza lieder evening with Irwin Gage, piano. Schubert, Fauré, Ravel and R. Strauss. Musikverein. (Wed).

Vienna Festival with the Vienna Philharmonic Orchestra conducted by Lorin Maazel with Wolfgang Schulz, flute. Bach, Berg and Bruckner. Konzerthaus. (Thur).

NEW YORK

New York Philharmonic (Avery Fisher): Conductor Zubin Mehta with New York Choral Artists: Prokofiev, Mussorgsky (Thur); conductor Zubin Mehta: Bach, Mozart, Strauss (Thur). Lincoln Center (8742424).

WASHINGTON

National Symphony (Concert Hall): Conductor Mstislav Rostropovich; Alicia de Larrocha, piano; Glinka, Mozart, Brahms (Tue); conductor Mstislav Rostropovich; Lynn Harrell, cello; Kenneth Pasmanick, bassoon: Schobert, Schuller, Saint-Saens, Ravel (Thur). Kennedy Center (2543776).

CHICAGO

Chicago Symphony (Orchestra Hall): Conductor Erich Leinsdorf. Mozart, Copland (Thur). (4358122).

TOKYO

New Japan Philharmonia Orchestra, conductor: Seiji Ozawa. All-Brahms programme. Tokyo Bunka Kaikan. (Mon). (3540101; 9806060).

NHK Symphony Orchestra, conductor: Wolfgang Sawallisch, violin Masafumi Hori. Richard Strauss. NHK Hall. (Wed, Thur). (4651780).

Previn switches into orchestral overdrive

On June 16 André Previn picks up tha baton in front of his new orchestra, the Royal Philharmonic, for the first time in public, and immediately embarks on a gamble.

The RPO *has* taken over London's South Bank for two weeks to launch its conductor with the André Previn Festival. But the venture is receiving no subsidy: if more than 75 per cent of the seats are not filled, *the relationship will have* got off to a sticky atart.

Fortunately, Banker's Trust has come up with £100,000 of sponsorship. And initial ticket sales for the 15 concarts and recitals which feature, among others, *Ashkenazy*, Zukerman, Dame Janet Baker and Ella Fitzgerald, are encouraging.

The RPO and Previn are confident enough to have booked the South Bank for another festival next year. The rush of blood they are both experiencing from tha new tie-up should make it mutually rewarding.

Previn, based in Surrey, needed a major UK orchestra; the RPO needed Previn with his box office appeal, his television and recording work. He has joined for five yaars; not as principal conductor but as music director. He regards himself as responsibla for the well-baing, financial as well as artistic, of the RPO musicians.

On the musical side, ha wants to liven up the admittedly routine programmes of the four big London orchestras. He promises, in particular, more contemporary American, and 19th and 20th century French music. He also wants to show off the RPO on soma foreign and UK tours.

Next year Previn also takes over the Los Angeles Philharmonic; ha believes that the main playing seasons of his two charges are complamentary. Ha also believes that tha disadvantages his UK musicians suffer, as against their U.S. colleagoes (basically, less money for more, and more laborious work), may be remedied by a music director who bestrides oceans and continents.

The RPO seems to be going for a high profile, working more sessions than the other orchestras, booking the big names as aoloists, and charging tha public higher prices. It still believes that, with the help of a give-away programme policy, half its Festival Hall audience will be paying less in 1985-86 than this year; but the best seats, for the best concerts, will be £12.

With Previn conducting often —and the orchestra enjoying the publicity from a TV series devoted to the concerto, following its success with the history of the symphony—the RPO is well placed to withstand any coming changes in public funding of the London orchastras.

Antony Thorncroft

TECHNOLOGY

EDITED BY ALAN CANE

Rise and rise of Telesis

Geoffrey Charlish on a new PCB market entrant

MORE IS likely to be heard in the UK soon of Telesis, the Chelmsford, Massachusetts-based engineering design automation (EDA) company which has just set up a subsidiary in Windsor.

EDA, an extension of computer-aided design (CAD), is the description being applied in the electronics industry to all the on-screen work of deriving electrical schematics, laying out circuits, generating artwork for manufacturing processes and feeding instructions to production tools.

Telesis, which is barely three years old, raised its turnover to $30m last year and claims to have 40 per cent of the U.S. market for printed circuit board (PCB) design systems that use stand-alone workstations.

Worldwide, it claims 25 per cent. So far it has steered clear of semiconductor chip design, where companies like Daisy, Valid and Mentor are battling it out. In board design in Europe, Racal Redac is the main competitor for Telesis, although several of the CAD majors offer systems.

The company was started by a group of CAD experts from Computervision who wanted to develop standalone systems for printed circuit board (PCB) design at a time when CV was mainly committed to the idea of a large computer shared by several workstations.

The Telesis approach is to supply software for particular purposes on appropriate standalone workstations that can be linked together over a local area network.

Thus, at tha early stages of design the IBM personal computer offers sufficient power for engineers to create schematics of their circuits and to derive pin and net lists (the detailed listing of interconnected points in the circuit).

At prices from £15,000, Telesis believes such software/workstation packages can be put on the majority of design engineers' desks cost-effectively.

An importaot benefit is that the machine can be used for other jobs like report writing using word processing and for other engineering software.

Having established the basic design of his circuit, the engineer can download the information to the Telesis EDA 300 colour screen design workstation where processing-iotensive tasks like placement of the components on the board and the physicat routing of interconnections are carried out. In a typical network, several PCs might work in conjuoction with one design workstation.

The EDA 300 is based on DEC and Motorola microprocessors. It uses a 19-inch high resolution colour screen with a monochrome function screen mounted horizontally below. A light pen allows easy interaction by the user with the design graphics.

Where needed, a stand-alone analytical processor, the EDA 500 can be connected to the net to provide more power.

The board design software, EDA 3000, can deal with analogue, digital, multilayer, fine-line and surface mounting design tasks and is "re-entrant" — which means that the designer can intervene at ony point in the automatic processes carried by the computer.

Their are no sizing restraints —grid size, conductor line widths ond line spacings are all user-selectable in increments of 0.001 inch.

Choosing from a stored component library, the designer can use the placement software to arrange the components on the screen — repetitive re-arrangement is quick and easy with assistance from automatic placement algorithms aod with the ability to move whole groups of components from one place to another.

There are a number of other aids. For example, all the shortest distance diagonal connection lines are automatically displayed, converging lioes immediately indicating poor placement.

In addition, channel density across the board is shown in histogram form at the bottom of the screen, allowing areas of congestion to be indentified quickly.

Routing of the conductors in up to 14 separate signal layers is outomotic and levels of completion exceed 95 per cent. The remainder are dealt with manually.

At the sama time, up to 16 design rules (spacings, widths, "no go" sreas and so on) are automatically obeyed.

On completion, the connections finally established are automatically compared with the original schematic, eliminating manual checking.

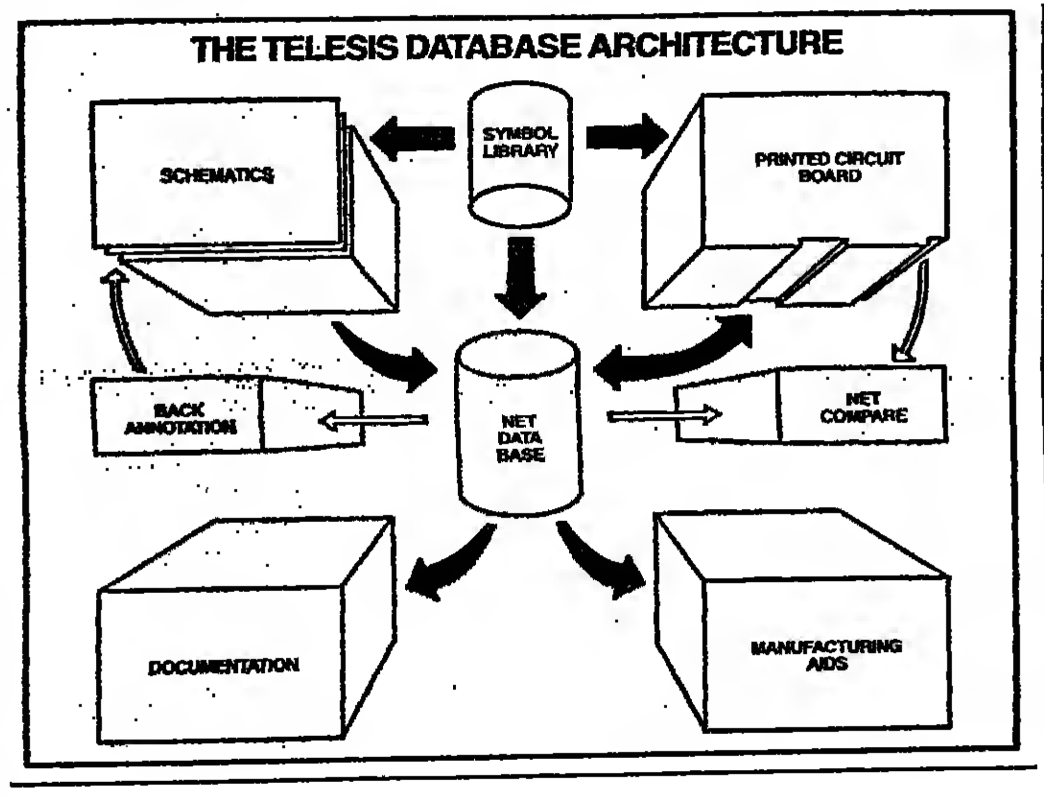
Other software allows for the relatively straightforward two-dimensional mechanical design of the bosrd.

Telesis has tackled the whole design process by keeping oll the accumuloted information in a relational database. This enables outputs to be provided for artwork plotting, bill of materials, assembly drawings, fobrication drawings and NC drilling tapes.

Recently the company announced a program that will carry out a thermal analysis of the board on the PC workstation at any stage of the design—the first such package to be marketed, it claims.

Many bosrd failures are thermally-based ond can now be discovered before manufacturing starts. To date, thermal tests of completed boards have usually been necessary.

Telesis has just landed two (unnamed) customers in the UK and Mr Patrick Regester, UK manager, expects to win business worth £2m in the first year.



Master's touch in putting on the heat

BY PETER MARSH

COMPANIES in the areas of advanced materials, aerospace and semiconductors are among those that may benefit from a new generation of laboratory-scale furnaces in which operating conditons can be controlled highly accurately.

Such equipment is supervised by computer controllers that continually monitor factors such as temperature, pressure and the flow of gases to maintain the correct conditions for difficult chemical or physical processes.

Increasingly, the furnaces are featuring in new, highly automated factories that turn out substances such as ceramic materials or which treat with doses of heat or gases the surfaces of metal parts, to make them resistant to wear, for example.

One of the prominent companies in production of such furnaces is Wentgate, based in Huntingdon, Cambridgeshire. Competitors include Tube Investments and Ipsen, a U.S. company.

Wentgate, a small company of 100 people and annual sales of £3m, is selling a new range of equipment which can provide a controlled atmosphere of gases and in which temperature at about 1,000 C can be maintained with an accuracy of 1.5 C.

An inbuilt mass-spectrometer analyses the spectral signatures of gases such as hydrogen or argon that may be introduced into the chamber, for example to modify the properties of a metal or ceramic substance.

In this way, a computer controller, made by a Worthing-based company called Control and Readout and an important component of the Wentgate machine, is given a continual stream of instructions about the concentration of the materials. With the information, the computer changes the rate of flow of the gases to keep this to an optimum level.

The controller also analyses temperature, measured by thermocouples or optical-sensing devices called pyrometers, and pressure, which is sensed by instruments based on strain gauges.

At any time, the computer would keep track of about 40 different variables, continually adjusting parts of the furnace such as heating elements.

One of the customers for Wentgate's new furnace, which sells for £50,000 for a 35-litre chamber and roughly six times that price for equipment with a 1,500 litre capacity, is Lucas Cookson Syalon, a British ceramics company.

In a factory at Wallsend, near Newcastle upon Tyne, the company is making with the furnace a group of ceramics called sialons, based on silicon, oxygen, aluminium and nitrogen. This class of substances can be made into high-strength engineering components capable of resisting temperatures of above 1,000 C.

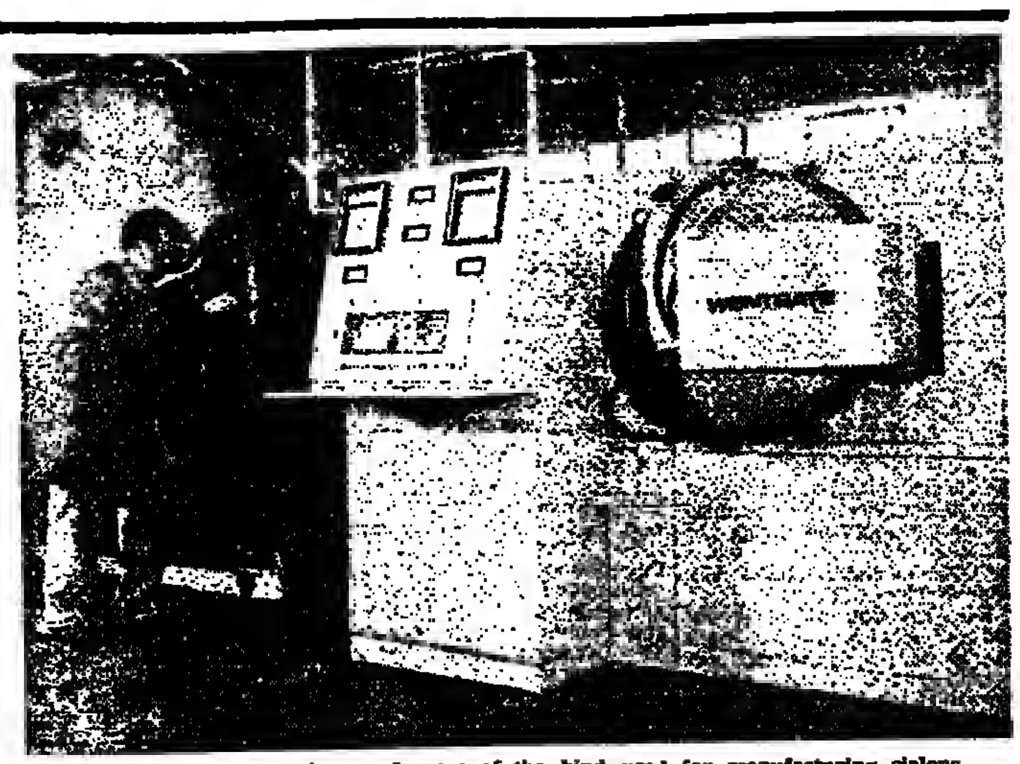
In an important part of the manufacturing process, a combination of materials has to be coalesced (sintered) under carefully controlled conditions and at a high temperature in an atmosphere of nitrogen.

Parker Netsushori, a Japanese company which operates a heat-treatment service to the Japanese engineering industry, is to buy another furnace. With the equipment, it will apply a controlled amount of heat to the engineering fixtures used in semiconductor processing. The metal surface in these fixtures has to be changed prior to the hardware's use in the clean-room atmosphere of chip production, for example to ensure that the metal does not evolve impurities in the form of vapours that could interfere with semiconductor manufacture.

Perkin Elmer has one of the new Wentgate furnaces at its Llantrisant works in South Wales. With the hardware, the company brazes the surfaces of metal components of gas-analyser hardware. The surfaces have to be carefully treated, in a technique that changes subtly their physical or chemical characteristics, to assure the reliability of the finished product.

Other customers are Normalair Garrett of Yeovil, which makes aerospace components, and EEV of Chelmsford, which turns out semiconductor devices for a range of applications.

Further application areas for the furnaces include treatment techniques used in the manufacture of semiconductors. For example, an electronics factory in Peking bought one of the earlier generation of Wentgate machinery to apply to the manufacture of power thyristors, devices that regulate the electrical-power input for items of machinery such as motors.



A special Wentgate twin-zone furnace of the kind used for manufacturing sialons

Robot makes its mark on the inside

WRITING ON the outside of products, on the metal caps of screw-top bottles, for example, is standard these days, but Kawasaki of Japan has developed a robot which can write on the inside of steel and vinyl pipes.

The robot applies ink using air jets; the printing machinery is incorporated into the arm of the robot, making it possible to print characters and numbers inside pipes of 15 centimetres and more in diameter.

Why print on the inside anyway? Outer markings are often erased in transit, says Kawasaki.

Its robot will be priced about Y50m.

Screen dumping

SCREEN DUMPING—operating a computer so that the entire contents of its screen can be printed out exactly as viewed can be expensive. According to Informer Computer Terminals of the U.S. current costs for screen dump facilities can be as much as £1,000, pushing the price of terminal and printer to £2,000 or so.

It has developed an IBM 3178 compatible terminal which allows the attachment of an ASCII printer for a fraction of this cost.

Its Informer 178 terminal and printer costs about £1,500 with full screen dump facilities. Informer has a UK office on 021-455 6666.

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday May 13 1985

First step to fiscal balance

FOR THE first time since 1981, when the U.S. Government launched the ambitious experiment in deficit-financing now universally known as Reaganomics, Mr Reagan himself has sensed the dangers of the economic course which he has charted for America and the world. The President's sudden surrender on Friday to the Senate's demand for a freeze on military spending, is the most hopeful sign to date that the U.S. budget deficit may be brought under control before it precipitates a serious financial crisis.

The $56bn deficit reduction agreed by a single vote in the Senate on Friday would still leave the 1986 deficit at around $170bn, even if the Administration's optimistic assumptions about growth and interest rates next year were realised. In reality, with the U.S. economy *slowing already*, the *deficit* would probably prove higher, particularly if the deflationary impact of lower *government* spending in the short term overwhelmed the beneficial effects of lower interest rates. This is *why U.S. officials were canvassing* support for more expansionary policies in Europe and Japan before the Bonn summit.

There was, however, one very good reason for other nations' scepticism about what might *have seemed a sensible proposal* for greater international co-ordination of fiscal policies. In spite of all the sound and fury in Washington over the deficit, it remained unclear whether anything substantial would actually be *done to bring* the budget under control. While last week's compromise between the President and the Senate was certainly welcome, it will require a lot more action from U.S. politicians, including Mr Reagan, *before the world is* convinced that they recognise the magnitude and urgency of their deficit reduction task.

Knife-edge

Friday's knife-edge decision in the Senate was, in principle, the easiest part of the budget process. Now attention passes to the House of Representatives which, unlike the Senate, is under Democratic control. The Democratic leadership is firmly opposed to the freeze on social security pensions which is the most important single component of the Senate's deficit plan. Having drawn blood from President Reagan on defence *spending, the Democrats will* now be tempted to pull the President into a public confrontation over social security as well. Thus the minimum price for a budget compromise may be an open admission from Mr Reagan that he is reneging on his firmest election promise—that he would not touch the benefits of existing social security recipients under any circumstances.

But the most important reason for scepticism runs much deeper than such political concerns. The basic cause of the growth of the U.S. budget deficit since 1983 has not been the increase in defence spending, rapid though this was. Over $130bn of the $160bn structural deficit can be directly attributed to huge tax cuts which were the cornerstone of the Reaganomics programme. These had two broad aims. The first was to stimulate activity and entrepreneurship in the U.S. economy. In this Mr Reagan was triumphantly successful, at least in the short term. Second he wanted "to cut Government off at the pockets," as he put it — to force Government out of activities which he considered damaging or inessential by depriving Congress of funds. This is the part of his programme which, in retrospect, was grievously misconceived.

Compromise

After four years of Reaganomics it is becoming clear that a sufficient political consensus does not exist in America for the sweeping reductions in government activity which Mr Reagan would have needed to make his budget sums add up. Mr Reagan's reluctant agreement to freeze defence spending provides eloquent evidence of this. It is proof that in America's pluralistic political system, it is impossible to achieve any further cuts in non-defence spending on the scale required to make major inroads into the deficits. In a sense it is even an admission that Reaganomics has so depleted the U.S. tax base, that the Government can no longer afford to pay for defence at what it considers an adequate level. It is hard to imagine such a situation persisting for long in a country as rich as America.

In short, it is now accepted even by the Republican leadership in Congress that a spending squeeze alone will not resolve the underlying imbalance created by Mr Reagan's tax cuts. Sooner or later, the President will probably be *forced to compromise* with Congress on tax reforms and higher revenues, as well as on cuts in spending. The big question is whether, while waiting for Mr Reagan *to* make his mind up, the world can avoid a serious *recession* or *financial* crisis.

Economic Viewpoint

Abolish, not 'reform,' these job-killing bodies

By Samuel Brittan

IF THERE is one issue which will be a test of the Thatcher Government following the state of nerves into which so many Conservatives apparatchiks have talked themselves after the shire elections, it is *what it decides* to do on wages councils.

So long as these councils exist, Government talk about more flexible labour markets and the relation between pay and jobs will have a hollow ring. For while Ministers can only have a very indirect influence on the pricing out of work which emerges from collective bargaining, or from employers who take the line of least resistance, wages councils are an entirely statutory creation.

The Government has provisionally decided to deratify the International Labour Organisation Convention No. 26 which requires it to establish minimum wage machinery. The *Department of Employment's* consultative paper leaves the options open between "reform" and abolition of these councils. The Department has asked for comments to be sent to W. Tomkins, D of E, D (IRE 2), Room 707, Steel House, Tothill Street, London, SW1H 9NF, by May 31.

The Department is known to be split on the issue, but the thrust of its consultative paper is that wages councils raise labour costs and thereby reduce *job opportunities*.

Two-thirds of wages council establishments employ less than 10 people; yet they have to comply with orders running to 30 pages in length which, according to the Department "*are frequently difficult* for both employers and employees to understand," and which by imposing rigid differentials for categories and grades make sensible wage structures more difficult to introduce.

There would be sufferers if the wages councils were abolished, *and nothing else happened.* They would not be the unemployed, but some of the 2¾m workers *already in* jobs covered by the 26 wages *councils, primarily in service* industries such as retailing, catering and hairdressing, but also in clothing.

About four-fifths of these workers are female and two-thirds part-time according to D of E estimates. Minimum full-time pay rates for adults range *from £63 to £72 per week.* About 1m workers are now paid only council rates without any premia.

No one should feel cheerful or self-congratulatory about imposing downward wage pressures on workers in these very low pay ranges, even though the great majority are unlikely to be *principal* breadwinners.

The essential argument for abolition is certainly not that the poor should be made poorer. On the contrary, it is the one made by Prof James Meade in his IEA paper, Wage-Fixing *Revisited, that the way to* improve the distribution of income in favour of the poor is not to force up wages above market-clearing levels at the expense of job losses, but to top up the pay of those on low wages through the tax and social security system.

The aspect of the social security review most relevant here is not the pensions controversy, but proposals such as the income-related additional child benefit, or the successor to Family Income Supplement, which would supplement the *incomes of poorer, working* families.

If the Treasury were concerned to be a real Ministry of Political Economy and not just a Finance Ministry, it would do a deal with the DHSS, whereby it took a generous line on income-related family benefits in return for the support of the DHSS and its sympathisers in Cabinet for the abolition of wages councils.

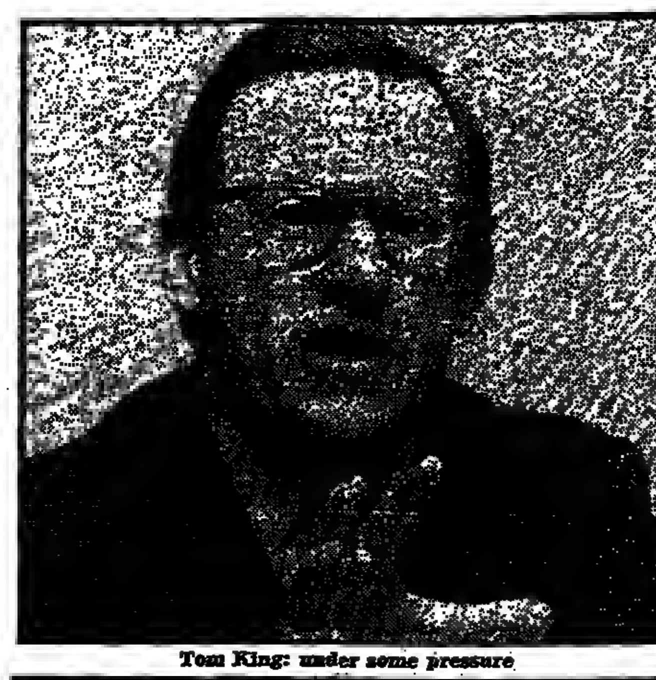
Meanwhile, the question for a market economist with a conscience, is whether to campaign to improve and extend income supplements, or whether to use their inadequacies as an excuse to continue the institutionally-enforced destruction of job opportunities for the weakest and most vulnerable.

A weakening of union monopoly, and of the "wage round mentality" among employers, is the most important precondition for the creation of more jobs at the upper end of the skill and income scale. The difficulties of doing this are not an argument for holding up action at the other end of the labour market, especially as low-paid workers suffer mora from unemployment and have greater difficulty in finding jobs once they are on the dole.

The biggest problem facing the abolitionist is that the interest groups, pressura groups and voluntary organisations, as well as agit-prop bodies, sending comments to the Employment Department, will be in favour of keeping wages councils.

The retentionists also include large retailers uneasy about the impact of small competitors with low labour costs. All these groups, plus fear of souring further relations with the TUC and unfavourable media headlines, will impel the establishment of the D of E against abolition.

Another piece of grit is the report of the Auld Committee, which was asked to inquire into Sunday opening, but took it upon itself to recommend tha retention and strengthening of *retail wages councils. It only* shows that even distinguished economic journalists, such as Frances Cairncross, who was a member, can nod.



Tom King: under some pressure

THE MAIN WAGES COUNCILS

Council	Estimated No of workers covered (1982)	No of establishments listed (1984)
Licensed residential establishment and licensed restaurant	555,300	30,192
Retail food and allied trades	519,300	118,351
Retail trades (non food)	512,800	62,594
Licensed non-residential	508,700	67,498
Clothing manufacturing	252,800	8,292
Hairdressing undertakings	135,600	33,344
Unlicensed places of refreshment	116,400	17,116
Totals	2,734,800*	386,298*

* Totals include 19 other wages councils each covering between 300 and 33,700 workers.

Source: Dept. of Employment

Employers sometimes argue that wages councils keep out unions. The general effect must surely be, however, to impose union-type constraints even where employers would otherwise be able to avoid them.

Retentionists occasionally focus on the "small" size of the job effect in standard calculations. If every 1 per cent reduction in the growth of earnings raises employment by half a per cent, then, if abolition made wages 10 per cent lower than they would otherwise be, some 100,000 to 150,000 new jobs would be created.

These are not good arguments for retention. Short of a head-on attack on the whole wage-fixing system any one individual job creation measure has a "small" effect.

Three separate Budget measures—the National Insurance changes, the YTS and Community Programme extensions—are between them expected to reduce unemployment over the next few years by 300,000, according to the London Business School If the abolition of Wages Councils added another 100,000 the cumulative effect of all these measures, on top of economic recovery, might just be sufficient to reverse the rising unemployment trend. (Rent decontrol of new tenancies might well be the most important single addition to these moves.)

Compromise "reforms" are hard to find. If wages councils' controls were merely abolished for young people under 18, only 5 per cent of the wages council workforce would be affected; and the proportion would fall if the Government induced more people into training.

Abolition for youngsters only would scarcely be worthwhile unless the age for the full adult minimum were raised to say 23, as it is in the Netherlands.

Alternatively, council functions could be simplified so that they only prescribed the adult minimum and ceased to lay down, overtime payments, holidays, holiday pay, etc.

Even then, however, the Government would still be in the embarrassing position of calling on people to price themselves into work while at the same time legally preventing them from doing so. If Mr Tom King, tha Employment Secretary, is to be hung by the pressure groups for a lamb, he might as well undergo the same penalty for a worthwhile sheep.

PAY REGULATION has been most intensively investigated in the U.S. which has had minimum wage laws since 1938 with many changes in coverage. Most research shows that jobs are lost when minimum rates are raised and the worst sufferers are teenagers and blacks.

In the UK, quantitative estimates for the whole economy, summarised in a recent Treasury paper, suggest that every 1 per cent off real wages will produce half a per cent to 1 per cent more jobs. These estimates assume that the Government will maintain nominal demand as the Chancellor undertook in his Budget speech.

An official British paper to the NEDC had a section on the relation between relative wages and the employment of young people, suggesting that the adverse effect was even greater than that of excessive real wages in the economy as a whole.

SOME FINDINGS ON MINIMUM PAY AND JOBS

Henry Neuberger, the economic adviser to the leader of the Labour Party, used a version of the Treasury Model in a 1984 Low Pay Unit paper to support wages councils. The soft answer is that "even" Mr Neuberger admits that abolition would create some jobs, although only 8,000.

The hard answer given by the D or E's employment market research unit (EMRU) Bulletin No 4, April 1985, is that Mr Neuberger's work suffers from "serious anomalies" such as not specifying his assumptions about the Government economic policy response.

A more interesting study, although based on a very small sample, is by Roger Kaufman in the March 1984 British Journal of Industrial Relations. This was on the reasons for wage stickiness in the face of recession in small competitive firms. This was explained partly in terms of encouraging employee motivation and employers' social objections to low wages. But, in addition, half the firms subject to statutory minima felt that they were prevented from recruiting more workers by the ban on undercutting.

An econometric study has just been published by EMRU itself, Wage Floors in the Clothing Industry, 1950-81. The workforce in this industry declined from 580,000 to 285,000. The detailed estimates are up to 1979, during which male employment fell by 40 per cent and female by 30 per cent.

The effects of real minimum wage requirements were sufficient in themselves to have reduced employment by 10 to 20 per cent. Other non-wage labour costs, such as employers' contributions, accounted for a further 20 per cent or more. Employment elasticities ranged from 0.2 to 0.4.

During the period of faster contraction up to 1981, minimum wage requirements "had an even stronger negative influence on jobs," but estimation problems made it more difficult to assess the effect.

The views of research study authors need to be distinguished from their findings. A report by the Cambridge Department of Applied Economics, Pay and Employment in Four Retail Trades claims (surprise, surprise) that wages councils serve a useful purpose in terms of "equity and efficiency."

In contrast to the clothing study, the Cambridge one is based on survey questions. The authors indeed found that most of the firms faced trading difficulties, and that wages councils frustrated their attempts to minimise the costs.

But they stress that few firms "volunteered the view" that pay was an important determinant of employment, and the majority emphasised the need for an upturn in trade.

There is a long history of businessmen downplaying to academic economists the role of the price mechanism. (Some distinguished Oxford economists were persuaded by such interviews before World War II that interest rates did not matter.) A good maxim is to look at what businessmen can do rather than what they say.

The Cambridge authors fear that the abolition of wages councils may simply increase profits or trigger off destructive wage-cutting competition. EMRU comments that the first possibility is small, given tha highly competitive conditions. Secondly, if both wages and prices were cut, the result "could mean more jobs in the rest of the economy."

Given the dependence of research conclusions on the methods and beliefs of the researchers, it would be absurd to pick and choose between different wages councils according to the accident of which group had reported on their industry.

The abolition of the wages councils would lead directly to some worthwhile new job oportunities, but have an even greater symbolic importance in indicating that the main function of pay rates is to clear labour markets, and that any attempt to base them on "social justice" has pernicious, if unintended, effects on the most disadvantaged members of the working population.

British Telecom on a world stage

COMPETITION and efficiency are tha stated objectives of the Government's privatisation programme. Yet when the requirements of competition seem to call for the break-up of dominant enterprises, such as *British* Airways or British Telecom, ministers have shied away; the need to raise large sums for the Exchequer in the shortest possible time has taken precedence over competition. This is a serious flaw in the programme which is likely to be repeated with British Gas.

Some of the fears expressed during the passage of the British Telecom Bill have been revived by BT's decision, announced last week, to buy a controlling interest in Mitel, *one of the* leading North American producers of private automatic branch exchanges (PABXs); this is BT's first substantial move into manufacturing and into the world market.

In the run-up to privatisation there were those who argued for separating the operation of the local telephone network, which is likely to remain a virtual monopoly, from the supply and manufacture of terminal *equipment (such as* PABXs), which could be open to free competition. The network operator, if it was also a supplier of terminal equipment, would have a big advantage over other suppliers which did not enjoy the *same links with the* ultimate customer. This was one of the reasons why in the U.S. American Telephone and Telegraph was forced to sell off its local telephone companies. AT&T was free to attack tha domestic and international *communications market but without the monopoly cushion* which the local networks had provided.

The BT licence provides that any manufacturing operation should be set up as an arm's-length subsidiary; Oftel, the regulatory agency, would be able to identify any evidence of favouritism or cross-subsidisation. Whether this compromise between competition and regulation will work depends on the effectiveness of Oftel. But it is hardly surprising that British suppliers of terminal equipment see BT's move into manufacture as a threat to their ability to *compete*.

BT's managers view the matter differently. They have no plans for competing against their suppliers in large public switches, such as System X. But they do see themselves as much more *than* network operators. They want to exploit the convergence between computers and communications and to satisfy the needs of customers, especially large businesses, in handling voice and data communications. The private branch exchange is a crucial component here, as IBM *demonstrated* when it bought Rolm, one of Mitel's competitors, two years ago. BT thinks it has the potential to make an impact against the *likes of IBM* and AT & T but it needs direct control over the key technologies and the ability to manufacture certain types of equipment on a world scale.

Conflicting aims

These are large ambitions but *BT is now* free to make its own commercial decisions. What matters for the Government *is* that BT should not use its monopoly power as network operator to the disadvantage of other equipment manufacturers. It may be that the case for separating the two activities may ultimately have to be reconsidered.

There were conflicting aims in the British Telecom privatisation. Apart from raising funds for the Treasury and creating more small shareholders, the *Government wanted to make* the domestic telecommunica*tions market more competitive*, implying a diminished role for BT. At the same time British Telecom was seen as the flagship of the British information technology industry, using its financial and technical muscle to attack world markets. Finding a way through these various objectives will not be easy. The consequences of privatisation may pose as many problems as the act of privatisation itself.

BT finds room in Birmingham

The successful privatisation of British Telecom has posed some logistical problems for the new management.

With around 1.7m shareholders—as calculated last week—the company has a problem finding a venue which will be big enough for the first annual general meeting.

BT is confident that it has more *shareholders* than any other company in *Britain*, and possibly in Europe. But it is at a *loss* to *know* how *many* of the new capitalists will wish to question their board.

The likely site for the jamboree will be the arena at the National Exhibition Centre, Birmingham. It seats 12,000 and is a fashionable sort of place, having even attracted the Princess of Wales—though admittedly she went there to hear a pop group rather than any captains of industry. Tha centre also offers the flexibility of a half-dozen other halls which could be used to accommodate *overspill* shareholders if needed.

If all the shareholders decided to turn up BT would have no option but *to* hold the biggest open-air festival Britain has ever seen.

The date has yet to be announced. But, as one sceptic says: "How many peopla would travel to Birmingham on a wet Wednesday in September?"

Nor is there likely to be a lure of champagne and smoked salmon as some companies offer their backers. BT is unlikely *to* dig deeper in its pocket than the price of a cup of tea.

BT might also be called on to show some of its electronic wizardry. With such a large gathering it will be difficult for an individual shareholder to catch the eye of the chairman. Video displays are expected to have a prominent role in what will be a pioneer project for the privatised business.

With the experience gained in Birmingham this year BT could even become the market leader in mass rallies.

Men and Matters

Euro-man

By quitting as deputy chairman and chief executive of the European Banking Company, Stanislas Yassukovich has robbed the hank of one of the *best-known* names in the Euromarkets.

If well-sourced reports are true the gainer will be Merrill Lynch.

Stanny, as he is usually known, is widely regarded as *one of the founding fathers* of the Eurobond markets. When the first Eurobond issue — a $15m deal for Autostrada, the Italian state road company—was launched in 1963, he was working for White Weld, an *investment* bank which played an important role in the distribution of the bonds.

He joined EBC at its foundation in 1973 as managing director. He was described in a history of the Eurobond market *as its "premier spokesman."*

Recently, however, he has been trumpeting tha ear of the been trumpeting the era of the Euro-equity. Earlier this month ha set up a market-making operation at EBC in European *stocks. Stanny believes* that London should become "the Wall Street of Europe."

Now aged 50, he is expected to take over from Don Roth as chairman of Merrill Lynch's European and Middle East operations.

Plugged in

For a man who claims that he runs a low-*profile company* Martin Naughton has not been too successful in keeping his head down recently.

He has popped up again to add Morphy Richards to a belt already laden with notable scalps from the domestic appliances business.

"I hate motorway driving—they all look the same nowadays"

In the past 11 years, since he set up Glen Electric in Newry, Northarn Ireland, with the help of the *province's* development board, Naughton has acquired a string of British names.

The hunt began in 1977 when the fledgling Gleo Electric snapped up Dimplex, the radiator company, which had been beaten to its knees by the energy crisis. The joint company *became* Glen Dimplex and blossomed under the management's edict that every plant should become a "mini Taiwan."

Three years later, having benefited from the exploitation of Dimplex's strong position in the French market, Naughton pounced again.

By now, he was claiming to be the biggest electrical heater maker in Britain. He went on to compete for the European title with the capture of Brunner, a leading light in France.

More recently he has snapped up Burco Dean, of boiler renown, and has a licensing deal which allows him to use the glamorous Vidal Sassoon title on his hair-dryers.

Naughton's *tactics*—what be calls "product-orineted opportunism"—have given him a tightly-woven specialist business with a strong home base and a powerful presence overseas. "Our brands are known all *over the world, particularly in* the Commonwealth," he says. "Anywhere that the flag used to fly."

For the moment he is standing by a promise he made to himself at the beginning of his career *in consumer* electrics. He has no ambitions for a Stock Exchange listing.

He has, however, failed to keep one pledge made in the early days. Working on the small-is-beautiful principle he vowed to *limit* turnover to £1m a year.

"*As you can see I have* failed dismally," he says. "With Morphy Richard we are looking at £100m this year."

Smith's drive

In a trade so close-knit that *it is said to be run by lineal* descendants of the horse-traders, the Motor Agents' Association has made a refreshingly unusual choice for its new president.

Bernard Smith, aged 38, is a mere *stripling* by the agents' usual standards. He is the youngest president they have ever had, and he has been in the trade for only 13 years.

Furthermore his background is far removed from the grease-bay and car showroom.

He read chemistry at London *University and gained his PhD.* It was only later, while indulging his hobby of restoring old cars, that he decided chemistry was too specialised to offer the career prospects he sought.

In the early 1970s he decided to turn his hobby into a business and founded the Concours Motor Company, first at Godalming, and later in the High Street, Haslemere, Surrey.

He is now a Peugeot Talbot main dealer and also runs a spare parts wholesaling business which, itself, is turning over about £1m a year.

Observer

EUROPE'S OIL REFINERIES

Now the knife is in the muscle

By Dominic Lawson

AFTER ALMOST a decade of restructuring, involving the partial or total closure of almost 80 refineries, the oil industry is taking a long hard look at the future of West European refining.

The bad news for those who have so far survived the dismantling process is that the surgery on the body of the European refining industry is set to continue. The men who wield the knife have cut away the fat. Now they have reached what was only recently seen as healthy muscle.

"We in the oil industry have cut refining capacity in Europe from 1bn tonnes a year to 750m tonnes a year, since the late 1970s. But we suffer from as much overcapacity now as we did when we started. The gap has not narrowed," says one oil company executive.

Purvin and Gertz, a leading U.S. firm of consultants to the international oil industry, concludes in a recent survey that West European crude distillation capacity utilisation is still only 61 per cent. It forecasts the closure of an additional 135m tonnes of capacity by the end of the decade.

Even after that, however, the outlook is scarcely inspiring. The 1990s would still see the so-called simple refining operations that were left recovering only marginal, not fixed costs, and certainly not making a profit. (Simple refining involves the straightforward distilling of crude into oil products.)

In complex refining — that is, the conversion of unwanted heavier oil products into more desirable products such as gasoline — Purvin and Gertz sees a surplus capacity of about 4m tonnes a year by 1990.

The picture for the refiners is further complicated by the EEC decree that member states must introduce unleaded gasoline by July 1989. The Commission itself estimates that investment of the order of $3bn will be required to comply with its directives.

Dr Ian Berwick, director general of the UK Petroleum Industry Association, says this may prove the final straw for some head offices in Houston or New York.

So far, of what were the Seven Sisters, only Gulf and Chevron have completely pulled out of mainland European refining and marketing.

HOW REFINERY CAPACITY HAS BEEN CUT
(Figures in million tonnes per year)

	Peak year*	1.1.85	% change to 1.1.85	Utilisation end 1984 (%)
EEC 10	844.2	583.3	−30.9	72.0
Belgium	55.3	31.2	−43.6	77.9
Denmark	10.9	8.3	−23.9	69.6
Germany	159.4	104.1	−34.7	82.6
France	174.5	114.6	−34.3	66.3
Greece	20.3	18.0	−11.3	73.8
Ireland	2.9	2.9	—	41.4
Italy	183.2	134.0	−26.9	59.7
Netherlands	102.4	71.4	−30.3	67.2
UK	136.6	98.8	−27.7	75.9

* For Germany the peak year was 1979, for the UK 1978, for other member states and EEC 10 1977.

Source: European Commission

But the term "stayer" is now only relative. Last month, Exxon, the world's biggest oil company, announced the sale of its Swedish downstream operations to Statoil, the Norwegian state oil company. "I hate to give up a market. But I'm a businessman," says Mr Joe McMillan, vice-president at Esso Europe with responsibility for the company's downstream operations.

Esso says it has not made money out of refining in Europe over the past few years. Asked whether he can confidently predict a return to profitability, Mr McMillan gives a one word answer: "Nope." Esso has 12 refineries left in Europe, compared with 20 in the late 1970s. Those closures, says Mr McMillan, were "easy decisions" since all the refineries could handle only simple refining and had not been upgraded.

But, says Mr McMillan, "either we make those 12 the most efficient in Europe or we'll shut them down."

The new radicalism at Esso appears to be almost received wisdom at British Petroleum, which under its chairman Sir Peter Walters has formally rejected the concept of an integrated oil company, and instead has attempted to become a company of separate profit centres. Four years ago BP hatched a plan to cut its European refinery capacity from 108m tonnes a year to under 50m tonnes a year by the end of 1985. BP will reach that target on schedule, though the announcement last month that it would close Llandarcy, one of its two remaining UK refineries, still appeared to catch the rest of the industry by surprise.

Meanwhile, it is a moot point whether BP's approach will prove to have been more appropriate than Shell's characteristically long-term strategy.

In the late 1960s and early 1970s Shell began to upgrade all its refineries with conversion facilities. By the time BP and Exxon got round to the same process it was already clear that capacity cutbacks were the order of the decade, so they were able to cut unmodernised plant. Not so Shell, which by the time of the second oil shock, and the subsequent decline in demand for oil, had no simple refinery closures to make.

Shell still has four refineries in France compared with BP's one, but in a rush of activity in the past few months, the company has announced the closure of its Teesport refinery in the UK and the shedding of 1,000 jobs at its Stanlow refinery. In March Shell UK announced a £35m downstream operating loss —its first—and Mr Jaap Klootwijk, Shell UK's downstream head, conceded that the company had been slow to recognise that the downturn in oil production demand looked permanent.

But Shell can at least argue that its refining profits in the late 1970s recovered the costs of the earlier modernisation drive.

The really big losers are those forced to shut, or run at a loss, plant that is still incurring high interest charges and is not fully amortised. Mobil's closure this year of its German Wilhelmshaven refinery (1977 vintage) is a case in point. The industry view is that the big 8m tonnes a year refinery should never have been opened.

Mobil and Shell have also found themselves in an equivocal role in the midst of the rapid build-up of product exports from the Middle East. Last year Mobil's 50/50 joint venture with the Saudis, a 250,000 barrel-a-day refinery at Yanbu, started operations. This year a similar 250,000 b/d joint Shell/Saudi venture at Al Jubail is due to start up.

Planned in the days when Opec was expected to be producing 40m b/d by 1985, and access to that supply was the top priority, the projects point up how the very long lead times associated with the refining of the best-laid plans.

Although the Middle East industry can make a mockery suppliers benefit from raw material costs a fraction of those in Europe, they are very unlikely to undercut the existing suppliers in the market place. To do so would immediately drag down world crude oil prices.

The more hefty blows to the European refiners have come from a much less publicised source, the Eastern Bloc. It is the surge of exports from the other side of the Iron Curtain that has taken West European refiners by surprise in recent years. And East European exports into Western Europe are still expected to be twice the level of Middle Eastern and African product exports into Europe by 1990.

But it appears that at the West European political level, complaints about the influx from behind the Iron Curtain are less prevalent than complaints about the distribution of misery within the Community itself. According to one Eurocrat: "The UK Government feels it's done enough, and has started asking why countries like Italy aren't doing more."

On the face of it the UK may have a point. Its utilisation of distillation capacity was 76 per cent by the end of last year, whereas Italy's was under 60 per cent. But in percentage terms Italy has been almost as rigorous as the UK, losing 27 per cent of its capacity since 1978, against the UK's 28 per cent.

It is also easier to restructure the industry in Britain where the refining industry is run entirely by integrated multinationals. In Italy the greater presence of the state in the refining business makes rationalisation a more political issue, and Italy also has a high proportion of independent refiners, for which closure is not rationalisation but extinction.

If those who withdraw were to do so by simply closing their operations, the effect might be salutary. But there are some very big new players, which are ready and willing to wrestle with the problems that have defeated the majors. Statoil of Norway, for example, sees its crude oil production rising from its present level of 13m tonnes a year to as much as 35m tonnes by 1990.

Kuwait Petroleum Corporation, which has bought out Gulf's downstream operations in mainland Europe has similar ambitions. Although it has closed down Gulf's Bertonico refinery in Italy KPC is determined not to play the role that some had planned for it, namely to buy up integrated networks and close unwanted refinery capacity.

If the overcapacity afflicting the industry largely stems from the oil industry's belief in the early 1970s that demand for oil was on an ever-rising trend, the industry now forecasts a continuing fall in the demand for gas oil and heavy fuel oil. Only gasoline is expected to be a growth market, and then only by about 1 per cent a year in Europe.

In sum, some of the world's largest business enterprises must still take elephantine steps towards a proper balance in their European operations. The restructuring may appear painfully slow, but the pain is bearable. After all, the integrated oil companies still make the biggest profits of all.

Lombard

A service from Big Brother

By Nicholas Colchester

IDENTITY cards are anathema to the British. They are seen as the embodiment of state control over the individual, of its ability to keep tabs on us and of its power to withhold something from us if we misbehave. Many people feel ID cards would reduce our right to move freely around the country and our curious right to change our names at whim.

Yet I have a mounting conviction that many other people would like one, and would be willing to pay a reasonable sum for one. They would like to be able to ask the state for such a card in the same way that they ask for a driving licence or a passport. It would be small enough to fit in the wallet. It would be indestructible and unforgeable. It would carry the bearer's photograph and be so larded with official stamps that no one could be in any doubt that the bearer was who he was and lived where he lived and did what he did.

No passports

This voluntary card would allow the bearer to cash cheques for substantial sums as one can in France. He could travel anywhere within the European Community without a passport, just as people already can in other European countries. He could identify himself rapidly when the need arose as a doctor or a vicar or a journalist. (British journalists are currently obliged to produce cards issued by their union to justify their curiosity.) He would have a fast answer on hand at the box office, at the bank, at the parking permit counter, and at all the other places where one's word is unaccountably no longer taken as one's bond.

The distribution of such cards would undoubtedly involve work in the public sector to process the submitted birth certificates, proofs of residence and of occupation, and so forth. Yet if the price was right the new product might even bring a gleam to Treasury eyes, particularly if it made imaginative use of the Passport Office's forthcoming move into the computer age.

Even such talk of a voluntary ID card will doubtless be heard with horror by those who have a strong instinctive suspicion of the power of the British government. They will argue that if such a system takes voluntary hold seductive reasons will be found to make it obligatory. They will fear the moment when banks, department stores or football clubs begin to make life difficult for those who have decided to preserve their anonymity by not holding such a card.

There is an undeniable risk on both scores. Yet underlying this proposal of voluntary ID cards is a suspicion that Britain's traditional phobia of such cards has become increasingly unfocused and out of touch with reality.

The fact is that many Britons have already elected comprehensively to blow their cover by revealing a great deal about themselves to Access, Visa, and American Express. Their whereabouts are already known to the Inland Revenue, to the Driver and Vehicle Licensing Centre and to British Telecom. They have already succumbed to the convenience of cash cards, cheque cards and bus passes. So when the moment for urban resistance arrives Big Brother will already be off to a flying start.

Horrified

The information society has developed to the point where the anonymous, untraceable individual moving in law abiding fashion about the realm has become an extreme rarity. The rest of us, however strongly we feel about such peoples' right to exist, take advantage of the state's omniscience when it suits us. We are horrified when the hit-and-run motorist cannot be identified. And when the fellow citizen across the counter doubts our identity we appeal to the state to vouch for us by producing a driving licence. It is a situation that could usefully be improved upon rather than resisted as though it did not already exist.

Letters to the Editor

The price of engineers

From Mr S. A. Gregory

Sir,—Michael Still (May 7) throws a realistic light upon some aspects of the price of engineers but does not go far enough. Rigidities in the system are not mentioned. In industry there is a framework of recommondations to employers regarding the various levels of skill and suggested rates of pay. In addition to such pooled recommendations there are in-house schemes, often supplied by consultants, in which grades and relativities are established in detail.

Engineers must themselves take some responsibility for their low price. Take, for example, the election to the Engineering Assembly which is going on at present. A fair proportion of the candidates put as their first priority the encouragement of new entrants to the profession. This is roughly the same as proposing to bring more potatoes on to the market when the price is depressed. Needless to say these were the first candidates to be excluded on my ballot paper.

That some of the newer engineers tend to look and sound like accountants is distinctly encouraging. These are varieties which are likely to bring better returns. We also need engineers who have the characteristics of entrepreneurs.

Perhaps those elected to the Engineering Assembly should direct attention in a much more radical way to the need for engineers to develop a keener sense of value in the market-place and to set about changing themselves. There is a need to shift from the idea of generating a bland image of the engineer as commodity by means of advertisements to serious discussion about varieties which are needed and what the customer would be prepared to pay.

S. A. Gregory.
22 Crescent Road,
Stafford

Not a lot in the union

From the General Secretary, Technical, Administrative and Supervisory Section, Amalgamated Union of Engineering Workers

Sir,—Mr Still (May 7) omits the most important reason why engineers' salaries lag behind —a major cause of the skill shortages everyone now bemoans. (There are, of course, other reasons for the skill shortage scandal, e.g. the destruction of Harold Macmillan's training system, the cuts in training resources, the neglect of science-based education, and most employers' hostility towards women as engineers.)

The main reason, however, is undoubtedly low pay. The main cause of low pay is the lack of trade union membership among professional engineers and therefore the absence of professionally-conducted collective bargaining. Where engineers—as in the public sector —belong to a union and negotiate collectively, they are far better off than when they have to rely on "individual" salary determination for senior staff.

Why are many professional engineers still not in a trade union? For some their backgrounds have made them anti-union, against their own interests. But in the majority of cases TASS finds that professional engineers want to join but are subjected to heavy pressure by employers against this course.

This is yet another case where the current epidemic of union-bashing works against the interests of individuals and against the interests of our nation.

K. Gill.
Onslow Hall,
Little Green,
Richmond, Surrey.

Putting Press in order

From the Chief Executive, Press Group

Sir,—Your survey on Malawi (April 16) included a number of comments on the Press Group which need elaboration.

I would first of all like to stress that Press, although included in an article on parastatals (state owned corporations), does not draw upon government funds and is not staffed by government employees. Nor is it exempt from any of the controls of laws which regulate the private sector.

His Excellency the Life President started the enterprise as the most tangible possible expression of his belief in the value of the private sector. Today the ultimate shareholder is the Press Trust which His Excellency established and so endowed for the benefit of the people of Malawi.

It is no secret that the group became seriously overextended in the early 1980s. In view of the importance of Press within the economy the Government played a major and constructive role in assisting with the group's restructuring without, however, absolving it from any of its obligations.

This restructuring involved the recruitment of new corporate management and the development of a coherent group strategy accompanied by a major programme of rationalisation. This has already resulted in substantial progress. 1984 recorded a profit of K2.5m in a shortened nine-month financial year compared with a loss of K12.2m for the comparable period of 1983.

We do not understimate the work which remains to be done nor yet the opportuinties still to be exploited. However, we face the future confident that Press will be a major force for continued growth.

C. W. Freyer.
PO Box 30238,
City Centre,
Lilingwe, Malawi.

Help for capital goods exports

From the Chairman, Export Group for the Constructional Industries

Sir,—Your leader "Aid, trade and subsidies" (May 3) demonstrates the complete confusion which exists on the use of aid in support of British industry in the developing world markets. The leader complicates the argument by discussing the general questions of protection and subsidy as if the arguments regarding protection and those regarding aid were the same, which they are not.

All developed countries operate policies of giving aid to poorer countries. Britain gives considerably less aid than any of our main trade competitors.

All developed countries giving aid split it between multilateral and bilateral aid. Most countries apportion aid with a heavy bias towards bilateral aid (i.e., which has to be spent in the country providing it). Some countries give six times as much bilateral aid as multilateral aid. Britain is unique in choosing to share aid equally between bilateral and multilateral.

All countries giving bilateral aid use some of it to make up financial packages known as mixed credits. Britain chooses to handicap itself by doing less of this than its main trade competitors.

Most countries using mixed credit use the aid component to finance soft loans (as was the case in Turkey with the Bosporus Bridge). Britain chooses to hand out cash grants which are not always seen by recipients as equally attractive (again as in the case of the Bosporus Bridge).

This matter has nothing to do with protection or subsidies to our industry. It is entirely a matter of should we give aid to poorer countries (and Britain already gives little enough)? If so, how we should allocate it between bilateral and multilateral aid? Of the bilateral component, how much should be available for mixed credits? Are soft loans more acceptable and more effective than cash grants?

It is not helpful for your leader to confuse these questions with general questions of protection and subsidy and one normally looks to the columns of the Financial Times for clarification rather than confusion. It might also be that a more appropriate heading for the leader would have been "Aid, trade and survival."

D. A. Holland.
15-17, King Street,
St James's, SW1

Trade and diplomacy

From Mr J. Oliver,

Sir, — Having just returned to private industry from a secondment to the Foreign and Commonwealth Office I experienced more critical challenges to what I was doing and why in three years as a diplomat trying to promote UK commercial interests than in 15 years as a businessman. Much of that criticism came from UK businessmen who were unaware of my particular background.

I cannot however, let Mr Meyer of the FCO (April 29) get away with suggesting that the five week course which all diplomatic officers undertake is intensive. It is, as Richard Oake (May 8) suggests, more like two weeks of leisurely lectures starting at 10 am and finishing nearer 4 than 5 pm, plus three weeks of briefings from a variety of "great and good" organisations involved in overseas trade promotion. The whole course would be inestimably improved by making it two-weeks residential with a really intensive programme. The more relevant attraction to commercial work today is that without some commercial experience no career diplomat will make it to the top and that of all the sections in an Embassy it is the commercial ones that are suffering least cuts, or so it seemed to me.

We have according to Viscount Davignon of EEC fame "the best organised foreign service machine in the world." It is an asset which more than pays for itself, and while many of us have views on how and where further economies could be made, businessmen with international interests would be foolish to join in the popular game of knocking the Foreign Office without just cause.

Julian Oliver,
21, College Gardens, SE 21

FINANCIAL TIMES

Monday May 13 1985

Terry Byland on Wall Street

Coke will keep its sparkle

MR ANGELO BOMMARITO, a Sicilian-born New Yorker, came a definitive step closer to the American dream last week. As he worked his daily shift as a restoration worker on the Statue of Liberty in New York harbour, a tugboat drew alongside, and he was presented with the first can of New Coke, Coca-Cola's bold bid to freshen up its flagship product for the first time since its inception 99 years ago.

Later, at Radio City music hall, New Coke received its world premier in a celebration which played full tribute to Coke's unique place in U.S. culture and traditions. The launching ceremony was duplicated in other big U.S. cities. The rest of the world may have to wait a little longer, but the launch will be completed by next year.

The very thought of tampering with the make up of a product of exactly the same vintage as the Statue of Liberty, and perhaps even more closely linked with U.S. folklore than apple pie, might be enough to give a marketing manager nightmares.

Wall Street flinched when the momentous decision was first disclosed and Coca-Cola stock was perhaps a little slow to join in the general revelry on the stock market at the end of last week. However, immediate reactions have settled down now, and the investment community is beginning to assess the implications of the change. The company has had considerable success with some secondary products, such as Diet Coke, Tab and Sprite. But the old, original Coke, once sold in those distinctive bottles and more latterly in cans, still makes up two thirds of total group revenues, representing about $3.5bn in revenue and more than $600m in operating revenues.

New Coke will be introduced largely by supplying it to dealers and bottling companies through the normal ordering process, as replacement for old Coke sold. So Coca-Cola chiefs are in for some tense moments in the next few weeks.

Brokerage houses agree that it is probably pointless to speculate on the success or failure of the move. The Coca-Cola board itself will begin to know the results in three or four months, according to Mr Brian Dyson, president of Coca-Cola USA.

But the new launch may not be quite as risky as it seems. Pepsico, Coke's chief rival, has been enjoying itself no end with rival press conferences, but Coke still has a stranglehold in most of the important markets.

More than a third of domestic coke sales go to restaurants, clubs and similar outlets where it is almost always the only cola drink available. A similarly important and captive market is the vending machine sector. The formula chance in Coke is not likely to affect either of these areas of domestic sales.

Only in U.S. grocery outlets — stores and supermarkets — does the consumer face choices between Coke, Pepsi and the few smaller rivals. These outlets are supplied by Coca-Cola's bottling franchisees, who are strong in their areas and can be expected to fight hard for what is virtually their only brand account.

But the hoop-la at Radio City and the other U.S. presentations masked the significance to Coca-Cola sales and profits of the world market.

Around 60 per cent of sales of the Coke brand are outside the U.S. Pepsi is weak in the world market, and Coke is often the only cola drink available.

The company does not break out Coke sales from total soft drink sales, which include the last-growing Diet Coke. So far, sales growth at home has generally outstripped growth overseas, turning in annual gains of around 10 per cent. This may be about to change. The board's latest forecasts for 1985 indicate 8 to 10 per cent sales growth at home this year. But even if the final figure comes out at the top end of the range, it will be overtaken next year by an expected 12 per cent jump in non-U.S. sales.

Moreover, operating profit margins on non-U.S. sales are good and seem to be growing. The margin was 22 per cent in 1984, compared with only 13 per cent on domestic sales.

It is against this background that the New Coke launch needs to be judged. The brand's domestic outlets are well established and protected. And overseas, a new launch probably means fewer traumas, and offers a significant opportunity to capitalise on the new popularity of the U.S., not least among the young and upwardly mobile.

"What appears to be an aggressive and risky strategy turns out to be a relatively safe venture with significant upside potential," is the way Mr Hugh Zurkuhlen, a Salomon Brothers analyst, puts it. So Coca-Cola may prove yet again that it learned about marketing when its rivals were still in knee pants.

Run on deposits closes Maryland savings bank

BY TERRY DODSWORTH IN NEW YORK

U.S. BANKING officials were last night trying to assemble a rescue package for one of the largest savings and loans in the state of Maryland after the bank was closed during a heavy run on deposits at the weekend.

As the crisis at Old Court Savings and Loan Association escalated on Saturday, Mr Harry Hughes, the Governor of Maryland, announced that he was cutting short a trip to the Middle East and flying back to the U.S. to help with the rescue negotiations.

The run on deposits at the Baltimore-based savings and loan company, which has seven branches, erupted at the end of the week, when it was revealed that the Maryland Savings Share Insurance Corporation (MSSIC), which insures Old Court and another 100 state savings associations, had ousted the company's chairman, Mr Jeffrey Levitt, for "possible wrongdoing."

The Attorney-General of Maryland said later that his office would conduct an investigation into possible criminal activities at the bank, including "conflicts of interest." No details have so far been given about the alleged activities, or the extent of potential losses at Old Court, which has assets of around $840m, making it the second largest S and L in the state.

The nervous reaction of depositors, who were again forming angry queues outside Old Court last night, has raised fears of a possible run on other savings and loans companies in Maryland in the current fragile state of investor confidence in the industry.

Old Court was privately insured by the MSSIC rather than the federal authorities, reminiscent of Home State Savings and Loan, the Ohio institution which failed in March, precipitating a run on deposits and temporary closures of savings institutions throughout the state.

Mr John Faulkner, newly installed as chief operating officer of Old Court and a member of the insurance fund, said that the bank was not insolvent and that "every request for withdrawal" was being honoured to the penny. Up to the weekend, it is believed that about $15m had been withdrawn by anxious investors.

Among the rescue proposals being discussed between state officials and the MSSIC are a merger with another S and L or a takeover by the state. At least two Washington-area savings institutions have been involved in negotiations so far, with talks hinging on the amount of cash the insurance organisation is willing and able to inject, and the degree of protection against possible future losses.

Before the crisis last week, Old Court had attracted attention as one of the most rapidly-expanding savings institutions in the country. In the last three years, its assets have grown from $140m to $840m.

Japanese leaders may seek substantial income tax cuts

BY JUREK MARTIN IN TOKYO

JAPANESE political leaders, apparently responding to a mixture of international pressure and domestic political realities, now appear more ready to entertain a substantial income tax cut next year.

Over the weekend Mr Yasuhiro Nakasone, the Prime Minister, told a parliamentary committee that he thought cuts in both personal and corporate taxes next year might be appropriate. Before the Bonn summit, 10 days ago, he had said the Japanese economy did not need extra stimulus for the time being.

Mr Nakasone insisted that the purpose of tax reductions should be to remedy existing tax inequities and not to spur domestic demand. But, in the next breath, he conceded that similar tax cuts, especially in the U.S., had advanced economic activity and, by implication, increased imports.

If the politicians succeed in imposing their views on the country's powerful bureaucracy — by no means a certainty — a casualty could be the long-mooted introduction within the next two years of a new consumption tax similar to VAT.

Mr Shin Kanemaru, the influential secretary-general of the ruling Liberal Democratic Party (LDP), has bluntly questioned the wisdom of new indirect taxes, suggesting instead a combination of tax cuts and a removal of some of the tax breaks now available to small savers and the affluent.

The LDP has long included advocates of fiscal stimulation, but they have not enjoyed the seat of power for some years. However, given the apparent shift in the views of the Prime Minister and Mr Kanemaru does not guarantee action, since the bureaucracy, which draws up and implements policy and which has mostly been motivated throughout the 1980s by the imperative of fiscal austerity, may be less inclined to budge.

It is undeniable, however, that Mr Nakasone and those close to him, pleased though they may have been that Japan emerged relatively unscathed from the Bonn summit, sense that some Japanese macro-economic gesture is necessary — if for no other reason than to help deflect external pressure for specific trade concessions.

Equally important is the fact that Japan seems likely to have a general election within the next 18 months. The LDP does not want to contest an election on a platform which implies higher taxes — a near disaster for it in 1979.

However, there would be a real political problem if any new tax reform package eliminated the Y3m ($12,000) tax exemption on small savings accounts. Mr Noburo Takeshita, the Finance Minister and Mr Nakasone's principal LDP challenger, was very careful over the weekend to state that cutting taxes and eliminating the tax breaks on savings were two different subjects. His reservations suggest that the tax battle has only just been joined.

China's challenge, Page 5

Wellcome considers SE listing

BY CHARLES BATCHELOR IN LONDON

THE WELLCOME FOUNDATION, the UK pharmaceuticals group which devotes a large part of its profits to charity, may seek a listing on the London Stock Exchange in a move which could value the company at £1.5bn ($1.8bn).

The foundation, whose shares are currently completely owned by the Wellcome Trust, a registered charity, is considering floating about a quarter of its shares on the stock market. The trust would retain majority control of the foundation so that its twin aims of devoting large slices of its earnings to research and to charitable donations can be maintained.

The foundation has appointed S. G. Warburg as merchant banking advisers on the flotation while the trust has nominated Robert Fleming to look after its interests.

The foundation is keen to have access to outside funds to make acquisitions and be able to reward executives and other staff with share option schemes. The trust for its part wants to diversify its charitable activities.

The trust will be able to maintain the ethical principles on which it was founded by keeping majority control of the foundation. This will avoid problems such as those which arose last year over the flotation of Reuters, the international business information network. An elaborate share structure was constructed for Reuters to avoid it losing its independence.

A final decision has still to be taken but if Wellcome does go ahead with a public quotation the move will end a 61 year-old tradition. The foundation has long published annual reports giving details of its profitability but it has not had the pressure of independent shareholders on it to perform.

The Wellcome group was founded by Sir Henry Wellcome, the son of a missionary in the American West. It grew to become one of the big three UK pharmaceutical groups along with the publicly quoted Beecham and Glaxo.

Pressure has been growing within the organisation recently for the company to take a more aggressive stance in the pharmaceutical markets.

It increased pre-tax profits to £89m on turnover of £806m, in the year ended August 1984 from profits of £81m on turnover of £674m the year before. Ten years ago it made profits of £22m on sales of £173.5m.

Pym to lead dissenting Tory group

BY MARGARET VAN HATTEM, PARLIAMENTARY CORRESPONDENT, IN LONDON

MR FRANCIS PYM, the former British Foreign Secretary who was dropped from Prime Minister Mrs Margaret Thatcher's Cabinet in 1983, confirmed last night that he is leading a new pressure group of moderate Tory backbench MPs.

Although he dismissed any idea that the group was a rebel movement and constituted a threat or challenge to the leadership of Mrs Thatcher, Mr Pym said it would not hesitate to vote as a block against the Government on issues such as economic policy and unemployment.

The group is pledged to steer the party back from the right to a more traditional form of Toryism with a view to the next general election and succession of party leadership.

The group, to be known as Conservative Centre Forward, already contains 32 Tory MPs who have been meeting every week secretly at Westminster to plan their tactics.

Prominent members include two former Tory ministers Sir Ian Gilmour and Mr Geoffrey Rippon, and Sir Peter Tapsell and Mr Julian Critchley. They believe their deep concern over the Government's failure to come to grips with unemployment is widely shared among Tory MPs. And they are already drawing up plans to make a big impact on the fringes of this year's Tory Party conference.

In the meantime, they intend to co-ordinate their public speeches and, if necessary, to defy the whips (party managers) in the House of Commons.

An early test of the group's resolve and muscle could come with the presentation of the Cabinet's review of the social security system, which members consider to be closely linked to the unemployment issue, and with much of which they expect to disagree.

Burmah reveals takeover approach by Heron

By Charles Batchelor in London

HERON INTERNATIONAL, the UK property, petrol station and insurance group, has made a bid approach to Burmah Oil — the British oil group currently valued by the stock market at nearly £370m ($450m) — Burmah revealed yesterday.

Burmah, which nearly collapsed in the wake of the 1974 oil crisis, said Heron had raised the possibility of a takeover and sought the agreement in principle of the Burmah board at a meeting two weeks ago.

In a statement issued yesterday to counter stock market speculation, Burmah denied that Heron had made an offer or that terms had been discussed. Burmah said it had been making efforts to improve its performance. "The board of Burmah, therefore, cannot see any benefit in an amalgamation with Heron."

But in a remarkably conciliatory statement that leaves it open for Heron to return with a formal bid, Burmah said: "Naturally, the board would consider any offer and would respond to it in the light of the company's prospects."

Heron, which already has a 4 per cent stake in Burmah, was unavailable for comment yesterday.

Burmah has spent the past decade rebuilding profits after it lurched into losses in 1975 and 1976 following the oil crisis, and the fall of the London stock market which endangered the collateral backing large loans to the company.

The Bank of England was forced to step in to guarantee borrowings in return for which Burmah gave the bank an option, which it subsequently used, to buy Burmah's large stake in British Petroleum.

Burmah sold off many of its oil and gas interests and began reducing the size of its tanker fleet. At the time of its near-crash it had 42 tankers.

Its reorganisation programme is still continuing. Earlier this month it emerged that Burmah had sold a further three crude oil tankers taking its loss-making tanker fleet down to four vessels.

Burmah has also reached agreement to buy stakes in 12 UK onshore oil exploration licences and is close to completing negotiations on the purchase of a U.S. speciality chemicals group.

Burmah last month reported an increase in 1984 pre-tax profits from £65m to £70m in turnover which rose from £1.58bn to £1.72bn. Most of the increase came from the highly profitable Castrol oils business.

Heron International, made pretax profit of £26m in turnover of £698m in the year ended March 1984. The bid approach to Burmah was made by Heron Corporation, the UK operating company.

Europe's oil refineries, Page 15

Setback in Sikh unrest

Continued from Page 1

Mr Gandhi has launched new policies in recent weeks aimed at reaching a permanent settlement of the Sikhs' economic, political and religious demands. He released Mr Longowal and other leading Sikhs from prison, appointed a new governor, and announced economic and other policies aimed at demonstrating that the Government was adopting a positive stance.

Despite setbacks, some progress appeared to be made and Mr Longowal appeared to be indicating he was interested in a settlement. But the bomb attacks demonstrate, as happened several times last year, how extremist violence can disrupt peace moves.

Meanwhile the unconnected violence in the western state of Gujarat over India's traditional caste system and Hindu-Muslim rivalries continued, despite a heavy army presence. At least six people were killed.

THE LEX COLUMN

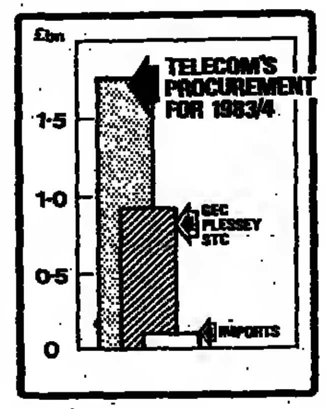
BT wrings its suppliers

When British Telecom announced on Friday that it was buying 51 per cent of Mitel, the Canadian PABX manufacturer, the stock market's first thought was for the damage to BT's existing suppliers. Plessey's share price fell by nearly 5 per cent, and STC's by 7 per cent. The immediate fear was not just that more business would go to Mitel at the expense of these companies; but also that the existence of an in-house manufacturing operation would put even more pressure on the suppliers' margins.

Even if BT were seriously to tighten the screws, the effect would not, in fact, be disastrous. Of Plessey's turnover, it is thought in the City of London that around £70m comes from switching products that compete head-on with Mitel — and of this, around half goes to BT on margin of 10 to 15 per cent. So if these assumptions are near the mark, and even if all this business migrates to Mitel, there is still no need for Plessey's pre-tax profit to suffer by more than 5 per cent.

BT only buys 8 per cent of its supplies from abroad, but now that it is no longer a nationalised industry answerable to the UK Government, it has more freedom to look outside Britain. Though it still feels it has some commitment to promoting UK employment, a multinational company which chose to set up a manufacturing base in Britain would qualify in BT's eyes as a home producer.

This is not to say that BT is deserting its domestic suppliers. It is, after all, committed to buying 2m to 3m lines of System X a year for the next decade or two. And for the rest of its business, domestic companies have a headstart over foreigners because of their longstanding relationship with the company and their proximity. But BT now claims that it "cannot afford to adopt a benign or paternalistic approach which would restrict purchasing to UK sources irrespective of the consequences to its competitive position."



these suppliers no longer exists. On System X, for instance, BT dropped STC, and with the research and development now done, GEC and Plessey bid against each other for orders. Not only that: the two will have to compete on cost and delivery with the new, alternative System Y from Thorn-Ericsson.

But the implications of the Mitel deal are further-reaching. For a start, analysts believe that this is the first of many such acquisitions. Though Telecom may need a little time to digest Mitel, it is hardly short of money and has made no secret of its intention to expand overseas into other areas in which the UK manufacturers are involved.

Even if BT holds to its intention of leaving main exchange manufacture to others, it could still use its enhanced bargaining power to cut into its suppliers' margins in other areas. But what they fear most is that Telecom could abuse its monopoly position as network operator to persuade customers to buy its own products rather than those of its competitors.

Telecom's toughness as a buyer is nothing new. With nearly £2bn to spend a year, it is powerful enough. Add to that its position as a monopoly customer for many of its suppliers, and the grip tightens. Before the liberalisation, and then privatisation, of telecommunications, BT might fairly have been accused of sleepiness in its procurement. But more contracts are now put out to competitive tender, foreign companies are often encouraged to bid, and BT takes a harder line on price, delivery and specification with its suppliers.

In 1983-84, 54 per cent (by value) of Telecom contracts were awarded to GEC, Plessey and STC. But the so-called "cosy relationship" with

This will not doubt go down well with BT shareholders. Now that it has bought Mitel, though, other suppliers could justifiably complain that they cannot compete in the domestic market. Yet telecommunications manufacturers need a solid home base to reap large enough economies of scale for their products to be competitive abroad.

They could, of course, complain to the Office of Telecommunications, which was set up to ensure that BT did not abuse its monopolistic position. Telecom will have to keep Mitel at arms length under the terms of its licence and Oftel could in theory prevent it giving its subsidiary an unfair advantage in the awarding of contracts. What constitutes an unfair advantage could, however, be hard to define, and it is difficult to imagine Oftel being able to force BT to buy from one supplier rather than another.

So while the stock market's reaction may have looked somewhat hysterical on Friday, investors may have a point. At least it is too soon to say that the shares have fallen too far.

Zero-coupon tax

The whole point of the UK Treasury's measures to force the opening of a zero-coupon bond market was that principles of symmetry — beloved of the Inland Revenue — were to be smoothed over in the interests of a better mix between bank lending and funded corporate debt. That the accrual of notional interest makes the zero acceptable to borrowers is evident; equally, the deferral of tax has proved attractive to tax-paying investors — notably those who are able to plan for a fall in their marginal rate of tax in the year when the bond matures.

Yet for investors like general insurance funds or banks, who are taxed as traders, the tax position seemingly remains ambiguous. If such a fund can delay payment of tax until sale or redemption, the regime makes the holding of a zero equivalent to receiving and reinvesting the notional gross coupon; on this basis zeroes may be very desirable indeed. For those who are taxed on accruals, however, the benefits vanish.

What seems strange, according to a Greenwell study, is that which of these treatments comes to be applied by the Revenue may depend on how the return on the bond passes through the holder's accounts. Net funds who are contemplating an investment in zeroes may be well advised to check that they can keep them in at cost — otherwise the net yield may be rather disappointing. Arbitrariness may be an inbuilt characteristic of all taxation, but if the incidence of tax on zeroes depended on a case-by-case adjudication, the policy objective of getting more corporate debt funded — and eventually reducing the bill mountain — might be frustrated, serving nobody's best interest, notional or actual.

World Weather

		°C	°F
Ajaccio	C	17	63
Akrotiri	S	24	75
Algiers	C	17	63
Amsterdam	S	17	63
Athens	F	22	72
Bahrain	C	35	95
Bangkok	R	34	93
Barcelona	S	15	59
Beirut	—	—	—
Belgrade	F	23	73
Berlin	C	17	63
Biarritz	F	13	55
Blackpool	C	13	55
Bordeaux	C	11	52
Brussels	S	18	64
Budapest	S	23	73
B. Aires	F	24	75
Cairo	F	33	91
Cape Town	S	19	66
Caracas	C	26	79
Casablanca	F	20	68
Copenhagen	S	15	59
Corfu	S	21	70
Dublin	F	10	50
Dubrovnik	F	19	66
Faro	S	19	66
Florence	S	19	66
Frankfurt	F	24	75
Funchal	C	17	63
Geneva	S	15	59
Gibraltar	F	18	64
Guernsey	C	9	48
Helsinki	F	15	59
H. Kong	F	31	88
Innsbruck	F	21	70
Inverness	F	10	50
Istanbul	S	20	68
Jersey	R	9	48
Jo'burg	F	20	68
Las Palmas	C	20	68
Lima	—	—	—
Lisbon	S	17	63
Locarno	T	10	50
London	C	9	48
Los Angeles	F	19	66
Luxembourg	R	13	55
Madrid	C	13	55
Majorca	S	17	63
Malaga	F	18	64
Malta	S	25	77
Manila	F	36	97
Miami	F	26	79
Milan	C	15	59
Moscow	C	26	79
Munich	S	23	73
Nairobi	C	23	73
Naples	F	24	75
New Delhi	F	39	102
New York	C	19	66
Nice	C	15	59
Oporto	F	17	63
Oslo	S	17	63
Paris	C	12	54
Prague	S	21	70
Reykjavik	F	8	46
Rio de J'o	C	29	84
Rome	F	25	77
Salzburg	C	24	75
Seoul	C	26	79
Singapore	R	31	88
Stockholm	F	17	63
Strasbourg	C	18	64
Sydney	R	20	68
Taipei	C	32	90
Tangier	—	—	—
Tehran	—	—	—
Tel Aviv	S	24	75
Tenerife	—	—	—
Tokyo	F	24	75
Toronto	F	27	81
Tunis	C	23	73
Valencia	F	18	81
Venice	C	28	88
Vienna	S	23	73
Warsaw	C	22	72
Zurich	C	13	55

Readings at mid-day yesterday

C—Cloudy D—Drizzle F—Fair Fg—Fog R—Rain S—Sun Sl—Sleet Sn—Snow T—Thunder

U.S. budget challenge

Continued from Page 1

in Nicaragua, the controversy over his visit to the Bitburg cemetery in West Germany and an economic summit in Bonn which denied him the clear gains he had been hoping for on a number of issues, including trade policy.

But if Mr Reagan's budget concessions have been shrewdly timed they are also seen as further evidence that in spite of his huge election victory last November, the President no longer has the political clout to force his political priorities through Congress as he did in the opening months of his first term of office.

Mr Gray's comments underlined the difficulties which still lie ahead for the budget package. But Wall Street's optimistic reaction to Friday morning's vote in the Senate indicates that many in the financial markets feel that deficit reduction is making more progress than seemed likely a few weeks ago when the President was taking an intransigent stance on the defence budget.

It is pointed out however that not only do the claimed reductions in the deficit in the Senate budget resolution exaggerate some of the potential savings but they are also based on economic assumptions which are looking increasingly optimistic as growth in the U.S. economy slows down.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday May 13 1985

Chile tries to plug gap with World Bank guarantee

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

CHILE and its creditor banks are considering a novel form of World Bank guarantee to help the country raise part of the $1.95bn in fresh funds needed to meet its balance of payments gap this year and next.

Under the scheme commercial banks would provide about $200m to $250m in loans to Chile which would become guaranteed by the World Bank when repayments start to fall due in the 11th and 12th year of their life.

The idea takes up one of the World Bank's priorities in dealing with debtor countries, which is to use its financial muscle to extend the maturity of loans beyond that normally available from commercial banks. But it is also intended to plug the gap between Chile's actual need for finance and the amount the banking system is willing to provide purely on its own account.

The guarantee scheme is bound to prove controversial as it would be the first time that any form of official guarantee has been offered on bank loans accompanying a rescheduling. The committee of leading creditor banks, chaired by Manufacturers Hanover, which has beeo negotiating the package with Chile believes, however, that opposition on this score from the U.S. and elsewhere can be overcome.

Bankers on this committee argue that Chile is a unique case because of its need for new money, which has continued even though it has performed well under its Ioternational Monetary Fund programmes over the past two years. The payments gap results largely from wrong forecasts for the copper price and interest rates which the IMF itself endorsed at the time.

Thus any World Bank guarantee scheme for Chile will be presented as compatible with the official case-by-case approach to the debt crisis and not as a precedent open to other needy countries as well.

Ultimately bankers argue such a scheme would be oeeded simply because the banking system is unwilling to come up with all the funds Chile now needs in the form nf a conventional forced loan. Even with the guarantee scheme, a considerable amount of financial juggling has beeo oeeded to produce a programme that will allow Chile to fill its payments gap up to the end of next year.

For example, $150m is to be saved by switching interest paymeots to a six-monthly from a three-monthly basis, effectively postponing them for future years. A further $50m is to come from a reduction in the ioterest rate agreed on the 1983/4 rescheduling. Meanwhile Chile is expected to receive a $250m structural adjustment loan this year from the World Bank, with more in later years.

That leaves banks still having to providc a non-guaranteed loan of $800m which would have a 10-year maturity with repayments starting after a grace period of five years. The advisory committee believes that a loan of this amount is the largest the country's 550 creditor banks can be expected to provide. It only just exceeds last year's $780m difficult fund-raising exercise.

By 1987, they hope, Chile will need no further new money from the banks. Sr Hernan Somerville, Chile's debt negotiator, is returning to New York this week for further talks on the package, which also includes $7.25bn in rescheduling of debt falling due up till the end of 1987.

Separately, Chile plans to try and renegotiate about $200m in official debt falling due to governments of the main industrial countries. But these efforts will be carried nut oo a bilateral basis rather than through the framework of the Paris Club, because Chile is deeply concerned that it would otherwise become enmeshed in Paris Club rules preventing the extension of fresh official credit once a rescheduling has been agreed.

If the bilateral approach works Chile will gain additinnal flexibility in managing its external finance, but bankers have not been counting on this in designing its rescue package.

Elsewhere the Euronote and credit markets were rather quiet last week, though the $400m facility for Electricite de France is now oversubscribed to the point where an increase to at least $600m can be offered to the borrower. While Czechoslovakia continues to mull over its borrowing plans, the Soviet foreign trade bank has launched a new $200m credit and the Comecon-owned International Investment Bank is raising $100m through a 10-year credit bearing a margin of ⅜ per cent and led by Sumitomo Bank.

A change has also been announced in the slow-moving $200m note issuance facility being arranged by Merrill Lynch for Danish Export Credit. Underwriters are to receive the optioo in the first 10 days of the deal's life to convert their obligation into the underwriting of a floating rate note bearing interest at six-month Libor with the coupon reset each month. They will be offered this mismatch floater at a price of 99.67 per cent and receive in addition the deal's management fee of 10 basis points.

Merrill Lynch said on Friday the change was made to provide cheaper funds to the borrower, though it clearly also bopes that the cbance of a floating rate note option may encourage banks which have been deterred from participating by the deal's low 7½ basis point fee.

EUROMARKET TURNOVER
Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
U.S.$	1,098.2	148.5	3,994.7	81.0
Prev	2,716.9	1.9	241.5	301.7
Other	449.9	143.1	129.8	29.5
Prev	1,180.5	175.1	325.9	78.2
Secondary Market				
U.S.$	14,357.6	581.2	10,178.2	1,758.9
Prev	16,537.6	644.1	10,580.8	1,897.1
Other	2,503.8	41.7	545.5	1,179.1
Prev	3,175.3	102.6	440.0	1,061.3

	Cedel	Euroclear	Total
U.S.$	9,882.3	22,326.2	32,208.5
Prev	9,960.4	22,941.9	32,902.3
Other	2,779.1	2,243.8	5,022.9
Prev	3,804.5	2,732.4	6,536.9

Week to May 9, 1985 — Source AIBD

BHF Bank bond average

May 10		Previous
102.087		102.021
High	1985	Low
102.860		99.840

Austrian banks braced for reform

By Patrick Blum in Vienna

THE AUSTRIAN banking community faces its biggest challenge nf recent years following the announcement of forthcoming radical bank reforms made last week by Dr Franz Vranitzky, the finance minister.

The minister hopes the refnrms, to be presented to parliament io the summer as an amendment to the 1979 Banking Act, will come into effect in mid-1986.

Improving capital ratio adequacy is at the heart of the proposed changes. Dr Vranitzky has decided that after years of hesitation, radical changes were oecessary to bring Austrian banking practices more into line with the international standards. Banks will be required to build up their capital base and curb over-enthusiastic lending, with the aim of improving profit margins.

The reforms will establish new criteria to define capital ratios taking into account contingent liabilities not previously included in ratio calculations, and force the banks, over a period of time which has yet to be fixed, to increase their capital base to 4 per cent of balance sheet.

On the basis of the new criteria the capital ratio of the large banks would stand at under 3 per cent and as low as 2 per cent for some institutions. All banks will need to increase considerably their share capital and earnings to meet the new target.

Raising capital adequacy will force the banks to improve earnings. "What we're saying to the banks is: do not go for business which involves a large risk but brings oext to no profits," a finance ministry nfficial said. At the same time there will be oew tighter credit limits.

World Banking Survey, Section III

Strong rally sends sun shining across the Atlantic

BY MAGGIE URRY IN LONDON

THE SUN is shining in the Eurobond market. By the end of last week syndicate managers could look back on some profitable deals and look forward to some more.

The spur came from the New York bond market where the week ended on a strong rally. The rise in the Eurobond market was sufficient for new issue managers to talk about Europe being competitive, so a fair proportion of potential issues could end up in London rather than New York.

That should be good news. The secondary market is finding that demand for good quality, well-priced paper is too much for the available supply and prices last week moved up by 1 to 1½ points, with a large part of the rise on Friday. The usual proviso must be made though – a few badly priced issues could quickly kill the rally.

No such deals appeared in the Eurodollar fixed rate sector last week. Issues for Sanwa and Österreichische Kontrollbank were moving well by Friday night. An issue for the U.S. railway company CSX, brought on Friday morning, was trading within 1¼ points of its issue price by the evening. Merrill Lynch took Friday afternoon to launch a 10-year issue for Citicorp, which could prove well timed if the rally continues on Monday.

Merrill Lynch fed a similar deal for Citicorp at the end of January – a 12-year issue with no calls for the first six years (this one has five years' call protectioo) – which was doubled in size the day after launch.

Floating rate note traders had a quieter ending to the week, though the excitement of the perpetual issues continued. Midland Bank's issue, like Lloyds's was increased to $750m and was bid at 99.89 at the week's end. Rumours abound about an issue from National Westminster Bank, and certainly there seems to be sufficient demand to accommodate another sizeable deal.

Convertibles were also in the news, and Credit Suisse First Bostoo's issue for American General was a candidate for deal of the week. CSFB adopted tactics it bas recently been using on some deals – keeping tight control over a small management group so that co-managers do not feel tempted to sell bonds back into the market which the lead manager has to mop up.

With fees on the deal of 2½ per cent the managers' profits should help redress the balance against some of the tougher deals of the year.

The Eurodollar bond market was by no means alone in its cheerful mood last week. Many of the other currency sectors of the market were seeing good buying interest.

Retail demand is running high for Australian dollar bonds with receot issues improving. On Friday, Orion Royal Bank announced an increase for the Commonwealth Bank of Australia issue from A$40m to A$50m. The bonds, issued the previous week, had beeo trading close to issue price. Last week's issues – as usually happens with a retail-dominated market – were slow to get off the ground.

The attractioo of the market to Australian borrowers was underlined when Westpac Banking raised three-year money at 13½ per cent and then increased its prime rate to 16¼ per cent the following day.

The Canadian dollar sector bad a tougher week, with three tigbtly priced deals appearing. The issue for Shell Canada should meet demand among the name-conscious retail investors. But Mootreal's pricing dragged Canadian National Railways's terms down with it.

Demand for Euro-Norwegian krone deals is hard to satisfy as the Oslo authorities keep a tight hold on the curreocy. The last new issue was for Denmark in February, so when Christiania Bank launched a NKr 200m deal for Scandinavian Airlines it took off.

The European currency unit market has been another notable hot spot, with four borrowers tapping the market successfully. Both parts of the Council of Europe's two-tranche issue on Friday were trading at a discount of ¼ point to their issue price.

The D-Mark Eurobond market was up by ¾ point last week, helped by the weaker dollar and sustained foreign buying. The new issue from the European investmeot Bank was swept up in the rally, ending the week bid at a ½ point discount to issue price.

Commerzbank's two-tranche zero coupon issue was also reported to be doing well, with the 10-year portion quoted just below the 50 issue price and the 15-year tranche at a point above the 33½ issue price. Commerzbank did not syndicate the deal but opened it to subscriptions.

The Swiss franc market did not quite share in the party, though prices were ahead by ¼ point over the week, with a preference shown for the higher coupon issues. Queensland's SwFr 100m 10-year issue, which has a 5½ per cent coupon, closed at 99½ oo its first trading day no Friday, compared to a 99¾ issue price.

Soditic has changed the structure of its dual currency issue for American Medical in response to poor market demand. The equity warrants originally attached to the bonds will now be sold separately, while the boods will keep the same 5 per cent coupoo but will be sold at a discount. Issue price will be SwFr 3,800 for a SwFr 5,000 oominal bond, which will eveotually be repaid in dollars.

INTERNATIONAL CAPITAL MARKETS

U.S. MONEY AND CREDIT

Budget freeze helps to breathe in new life

AFTER a falterir; start the U.S. bond market turned in another sparkling performance last week b uoyed by hopes of meaningful action on the federal deficit and an easier Fed monetary stance.

Two specific events helped breathe new life into a spluttering rally toward the end of another volatile trading week.

In the early hours of Friday morning the Senate narrowly approved a one-year budget freeze which appears to promise a $55bn reduction in the coming fiscal year. Then, by the time the markets had opened, the April producer price number was out showing a smaller-than-expected 0.3 per cent increase—despite the impact of higher petrol prices.

In the wake of this bundle of good news bond prices soared—shrugging off earlier woes caused by the record quarterly refunding package and the latest pronouncements from Mr Paul Volcker, the Fed chairman, which appeared to indicate that—despite mnch speculation to the contrary—there has been no basic change in Fed policy in recent months.

U.S. MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	7.97	8.28	8.70	11.77	7.82
Three-month Treasury bills	7.74	7.71	8.04	10.77	7.58
Six-month Treasury bills	7.88	7.89	8.26	10.83	7.87
Three-month prime CDs	8.12	8.20	8.60	11.90	8.05
30-day Commercial Paper	8.00	8.05	8.40	11.38	7.88
90-day Commercial Paper					

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	104	+ ⅛	10.90	11.08	11.30
20-year Treasury	104¼	+ 1¼	11.60	11.90	11.62
30-year Treasury	101¼	+ 1⅞	11.20	11.31	11.38
New 10-year "A" Financial	N/A	− ⅛	11.75	11.65	12.00
New "AA" Long utility	N/A	—	12.25	12.25	12.38
New "AA" Long industrial	N/A	+ 1	12.00	12.13	12.13

Source: Salomon Bros (estimates).

Money Supply: In the week ended April 29 M1 fell by $900m to $575.2bn.

While the markets greeted the Senate budget package with enthusiasm, the deal received a typically cautious welcome from many senior Wall Street economists who emphasised that despite some "watershed" features, such as a freeze in defence spending in real terms, the package is still a long way from delivering on its promise.

But the market was in no mood for such wisdom. The warnings were brushed aside in a wave of Friday retail buying which helped dealers clear their shelves of the $20.56bn in new government paper launched in the three-part refunding.

The auctions themselves went reasonably well, bringing investors average yields of 10 per cent on the $8.01bn of three-year notes, 11.30 per cent on the $6.5bn of 10-year notes and 11.38 per cent on the $6.05bn reopened offering of the 30-year long bond.

By the close on Friday the long bond was priced at 101¼ for a 1⅞ point gain on the week, yielding 11.20 per cent.

The small increase in the producer price index helped fuel another wave of speculation about Fed easing despite the latest Fed bank figures which suggest that monetary policy has indeed remained virtually unchanged since mid-January.

In midweek Mr Volcker, in Congressional testimony, appeared to add credence to this view. Asked if Fed policy had remained essentially unchanged he replied that this was "a fair characterisation." Meanwhile other Fed officials—including Mr Preston Martin, the vice-chairman and governor-designate Ms Marga Seger, were cautioning against too much expansion.

The markets initially reacted badly to these views, but then focused their hopes on the May 21 meeting of the policy-making Federal Open Market Committee.

The FOMC meeting will have a wide range of economic numbers to chew over. These include the April retail sales due out tomorrow, industrial production figures due out on Wednesday, and housing figures on Thursday.

Thursday will also bring another bunch of monetary aggregates. M1 fell $900m in the latest week. This week the M1 number will be accompanied by the broader M2 and M3 monthly numbers.

What the FOMC will make of the latest batch of statistics is a matter of hot debate on Wall Street. While some economists maintain that a discount rate cut may be imminent—a view which the market currently appears to endorse — others caution that such optimism may be ill-founded.

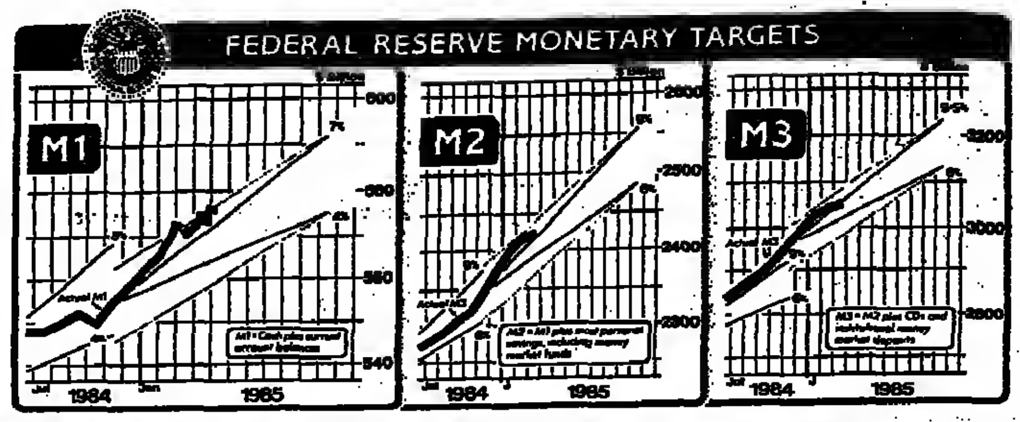
While Treasury rates were generally unchanged to slightly higher last week, most private short-term rates fell by between 5 and 25 basis points and the Fed funds rate traded around the 8 per cent level for most of the time.

Money market rates are now at, or in some cases below, their January lows. The three-year note is now around 25 basis points lower than its late January level and 125 basis points below the March extreme.

Yields on intermediate and long-term securities are substantially below the March levels but still above the lows recorded in January.

New issue volume totalled almost $800m last week with a similar volume currently scheduled for this week. Among the new corporate issues Textron sold $100m of 25-year 12¾ per cent bonds priced to yield 12.775 per cent, together with $150m of 10-year 11¾ notes priced to yield 11.851 per cent.

Paul Taylor



UK GILTS

Outlook cloudy with bright intervals

THE GILTS market seems to have been suffering from the same cold north-easterly air-stream which was dampening down the spring this week.

The outlook is what forecasters ominously call "uncertain," under the lowering aspect of the April money supply figures and the unexplained cloud of high bank lending. The inflation figures for April and May could also produce a few shivers.

However, by the end of the week there was much more evidence of "brighter intervals" as foreign investors reminded the markets that British yields are still high and there are still a lot of worried holders of dollars out there in the world.

But in the absence of any clear trend in the currency markets investors still have to decide what to make of the 2½ to 3 per cent surge in broad money supply, and more importantly, how the authorities see it—as just a spring cloudburst or the portent of more settled change?

The authorities were prompt with an umbrella to explain away £1bn or so of the £2.9bn rise of bank lending in the month to mid April; and the City by and large accepted the idea that leasing companies had been borrowing heavily to take advantage of the last month of higher capital investment allowances in 1984-85.

Nevertheless, this idea was not among the handful of explanations for high bank lending which the Bank of England assembled in its most recent Bulletin in March. The impression remains that the authorities are not only rather baffled as to why companies should be borrowing so much when they are flush with cash, but also uncertain as to what should be done about it.

The obvious conclusion is that funding will come under considerable pressure at a time when the second instalment of the British Telecom sale and the launch of British Aerospace will drain some £1.5bn of cash from the institutions. The authorities' task is made no easier by the need to refinance £1.45bn which is due for redemption between the end of this month and mid-July.

At the same time, there seems to be a renewed emphasis in Whitehall on the likely "front-end loading" of public borrowing. Treasury estimates suggest that after various adjustments for strikes there has been quite a stable pattern in the past six years for 70 per cent of the PSBR to fall in the first six months.

Since the growth of sterling M3 would have to be about zero in the next two months to bring it back within the 5 to 9 per cent target range, the immediate outlook for funding is chilly.

This was reflected in a fall of prices of up to two points after the money figures and discussion from some analysts like Mr Ian Harwood of Rowe and Pitman, of the possibility of a buyers' strike, with "nothing at present to get the market going."

It was hardly surprising therefore that the Bank did not push out a new tap on Friday as some people had expected even though it still had much of the £250m of 12¼ Exchequer 1990 and the £250m of 10½ 1995 on its books.

It is possible the authorities may not be over-worried by some overshoot in sterling M3 on the grounds that a substantial part of last year's rise—perhaps a third—represented higher interest-bearing deposits by institutions. There is also the perverse effect by which higher interest rates feed straight through into sterling M3, while generating increased loan demand from companies faced with higher bank charges.

The real risk is that renewed unease about monetary discipline with perhaps some further falls in the oil price could start a re-run of the January sterling crisis. The much increased nervousness about the dollar since then makes this less likely. The authorities can take some comfort from the stability of long-term gilt yields, as an endorsement of the general thrust of policy, but there is still plenty to be anxious about before mid-summer.

Max Wilkinson

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/8 Fin 11¾ 94	100	101¼	+0⅛	11.50
AIDC 11 89	75	100	+0⅛	10.95
AIDC 11⅞ 90	100	100½	0	11.70
Amer Savings 12 89	125	101¼	+0⅛	11.56
Amer Savings 12¾ 89	100	102	+0½	[illegible]
Asian Dev Bk 11⅛ 93	100	101	+0⅛	[illegible]
Australia 11⅛ 90	100	101¼	0	[illegible]
Australia 11½ 95	300	102½	+0⅛	[illegible]
Australia 11⅞ 98	100	102½	+0⅛	[illegible]
Austria 15½ 89	75	110⅛	+0½	[illegible]
Avco Fin 13⅞ 91	100	104¼	0	[illegible]
Bk Nova Scotia 13⅛ 87	100	105½	+1⅛	[illegible]
Bank of Tokyo 12⅞ 92	100	103	+0⅛	[illegible]
Bank of Tokyo 13⅛ 91	100	107½	+0⅛	[illegible]
Bank of Tokyo 13⅞ 89	100	107⅛	+0⅛	[illegible]
Bergen Bank 11⅛ 90	75	97⅞	−0⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nissho-Iwai 8½ 89	70	90	+1⅛	[illegible]
Nomura 6¼ 89	100	134	+1⅛	−2.86
Nova Scotia 11⅞ 91	100	102⅞	+0⅛	11.05
Nova Scotia 11⅞ 98	100	100⅛	+0⅛	11.83
Oester Post 12⅛ 89	75	102⅞	+⅞	11.33
Ohbayashi-Gumi 7⅞ 89	50	124	+3	1.42
Ontario Hydro 11⅞ 94	200	102⅞	+0⅛	11.16
Ontario Hydro 11⅞ 90	200	104⅛	+0⅞	10.64
Ontario 12½ 94	250	106⅛	0	11.68
Pacific Gas & El 12 00	75	100⅞	+0⅛	11.85
Penney J. C. 11⅛ 90	100	102⅛	+0⅛	11.17
Penney J. C. 12¾ 91	100	104⅛	+0⅛	11.73
Phillips Petrol 14 89	300	103⅛	0	12.94
Postipankki 11⅛ 90	75	98⅛	+0½	11.59
Post-Och Kred 13½ 87	50	104½	−0⅛	11.04
Privatbanken 12⅛ 97	100	99	0	12.91
Prudential Ins 12⅛ 87	150	104½	+0½	10.48
Pru Rlty Secs 0 99	365	22⅛	+0½	11.51
Pru Rlty Secs 11⅞ 92	365	101⅛	+1	11.51
Pru Rlty Secs 12⅛ 95	546	102⅞	+1	11.66

	Issued	Price	Chg. on week	Yield
Quebec Prov 12⅛ 94	190	103⅞	−0⅛	11.60
Queensland Gvt 11⅛ 89	100	101	+0⅛	11.05
RBC 12¾ 90	100	103	+0⅛	11.84
Rural Bk Aust 12 91	90	100	+0⅛	11.97
Sanwa Bank 11⅞ 92	100	100½	+0⅛	11.71
Saskatchewan 10⅜ 92	100	97	+0⅛	11.39
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden ⅛ 05	700	99⅞	+0½	9⅞
Sweden ⅛ 24	500	100⅛	−0⅛	10⅛
Sweden ⅛*	750	100⅛	0	5⅞
Tokai Asia ⅛ 89	150	100⅛	0	9⅞
Toyo Tst Asia ⅛ 99	100	100⅛	0	9⅞
TVO Power ⅛ 04	100	98⅞	0	8⅞
Union Bank Norw ⅛ 89	00	99⅞	+0⅛	9⅞
Wells Fargo ⅛ 96	50	99⅞	−0⅛	9⅞
World Bank ⅛ 89	250	98⅞	0	8⅞
Yorkshire Int ⅛ 94 £	75	100	0	13⅛

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	92⅞	−1⅛	
Best Denki 5⅞ 97	15	140⅛	+0⅛	−1.71
Canon 7 97	50	208½	−4⅛	0.40
Daiwa Secs 5⅛ 98	60	169⅛	+4½	0.01
Dev Bk Sing 5⅛ 98	70	74	0	4.89
Eldors 11⅛ 94	160	101⅞	+0⅛	105.16
Elektrpwatt 5 98	52	85½	−0⅛	7.81

	Issued	Price	Chg. on week	
Fujitsu 3 89	180	92⅞	−2	17.88
Intec Inc 3 89	90	71	−4	−0.98
Kumagai Gumi 3½ 00	80	106⅝	−1⅞	−2.38
LASMO 9¼ 98	45	96⅞	0	[illegible]
Moet-Hennessy 7 99	60	101¼	−0½	7.73
Mumta Mfg 3½ 00	100	108¼	−1¼	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nissho Iwai	1/2/89	5⅛	−0⅛	30.26
Nomura Sec	31/10/98	51½	+4½	2.82
Siemens Wstn OM	31/5/90	238	0	−6.71
Swiss Bk Corp	20/12/88	38⅛	+4½	13.56
Toray Ind	5/3/87	11	+0⅛	10.90
Volvo Int	15/12/93	57½	0	44.85

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	14/2/88	15	+0½	8.11
CocoCola 11⅛ 91	28/11/88	33	+1	4.97
Commerbk 11½ 89	17/7/88	62⅛	+7⅛	−1.71
Du Pont 13⅛ 89	25/8/86	52⅞	+1⅛	−0.17
Ekeportfinas 13¼ 89	15/9/87	54½	+3	−0.32
Gen Elec 12⅞ 91	7/8/87	44½	+0⅛	3.82
IBM Credit 13 87	19/8/85	46⅛	+5⅛	−0.87
Inv In Inda 10⅛ 91	1/12/88	89	+4	0.64
McDonlds F 11⅛ 94	5/1/89	23½	+0⅞	7.06
Oester Lnbk 13½ 89	8/8/87	48⅞	+6⅛	0.79
Tosaco Cap 17⅞ 92	1/8/87	49	+8	5.28
Xerox 13⅛ 87	15/9/85	40½	+8	−4.69

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

* Perpetual.

Closing prices on May 10.

This announcement appears as a matter of record only.
The Notes were offered and sold outside the United States of America.

U.S. $100,000,000

Engelhard Corporation

11¾% Notes due March 29, 1992

Goldman Sachs International Corp.

Swiss Bank Corporation International Limited

Chase Manhattan Capital Markets Group

Banque Bruxelles Lambert S.A.	Banque Nationale de Paris
Crédit Lyonnais	Dresdner Bank Aktiengesellschaft
Samuel Montagu & Co. Limited	Sumitomo Finance International
Union Bank of Switzerland (Securities) Limited	Yamaichi International (Europe) Limited
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited	Bank Leu International Ltd.
Banque Populaire Suisse S.A. Luxembourg	Great Pacific Capital S.A.
Lombard, Odier International S.A.	Soditic (Jersey) Limited

United Overseas Bank

March, 1985

This announcement appears as a matter of record only.
The Notes were offered and sold outside the United States of America.

U.S. $100,000,000

MOTOROLA INC.

11½% Notes due May 9, 1997

Goldman Sachs International Corp.	Union Bank of Switzerland (Securities) Limited
Algemene Bank Nederland N.V.	Bank Brussels Lambert N.V.
Chase Manhattan Capital Markets Group	Crédit Lyonnais
Daiwa Europe Limited	Dresdner Bank Aktiengesellschaft
Merrill Lynch Capital Markets	Mitsui Finance International Limited
Morgan Guaranty Ltd	Nomura International Limited
Sumitomo Finance International	Swiss Bank Corporation International Limited

S.G. Warburg & Co. Ltd.

May, 1985

This announcement appears as a matter of record only.
The Notes were offered and sold outside the United States of America.

U.S. $150,000,000

Ralston Purina Company

11¾% Notes due May 1, 1995

Goldman Sachs International Corp.

Citicorp International Bank Limited

Credit Suisse First Boston Limited

IBJ International Limited

Salomon Brothers International Limited

Union Bank of Switzerland (Securities) Limited

Algemene Bank Nederland N.V.	Banca Commerciale Italiana
Bank Leu International Ltd.	Banque Bruxelles Lambert S.A.
Banque Nationale de Paris	Crédit Agricole
Dai-Ichi Kangyo International Limited	First Chicago Limited
First Interstate Limited	Kidder, Peabody International Limited
Manufacturers Hanover Limited	Mitsui Finance International Limited
Morgan Grenfell & Co. Limited	Morgan Stanley International
Nomura International Limited	Orion Royal Bank Limited
Sumitomo Trust International Ltd.	Swiss Bank Corporation International Limited

April, 1985

This announcement appears as a matter of record only.
The Notes were offered and sold outside of the United States of America.

U.S. $100,000,000

The St. Paul Companies, Inc.

7½% Convertible Subordinated Debentures due April 15, 2000

The Debentures are convertible as described in the Offering Circular into shares of Common Stock of the Company.

Goldman Sachs International Corp.	Swiss Bank Corporation International Limited
Algemene Bank Nederland N.V.	Banque Paribas Capital Markets
Commerzbank Aktiengesellschaft	Daiwa Europe Limited
Fox-Pitt, Kelton N.V.	Kleinwort, Benson Limited
Merrill Lynch Capital Markets	Morgan Guaranty Ltd
Nomura International Limited	Union Bank of Switzerland (Securities) Limited
Julius Baer International Limited	Banca del Gottardo
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited	Bank Leu International Ltd.
Banque Populaire Suisse S.A. Luxembourg	Banque Scandinave en Suisse
Compagnie de Banque et d'Investissements, CBI	Lombard, Odier International S.A.
Pictet International Ltd.	Soditic (Jersey) Limited

April, 1985

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Nestle buys abroad but borrows at home

BY JOHN WICKS IN ZURICH

ALTHOUGH it is Switzerland's biggest company, Nestle has just made its first appearance on the Swiss bond market. Last week it successfully borrowed SwFr 300m ($113.3m) in the form of eight-year warrant bonds, issued at par with a coupon of 3⅝ per cent—below the rate of inflation.

The warrants attached to every three of the SwFr 1,000 bonds entitle holders to buy one registered share of SwFr 100 nominal value between July 11 this year and December 15, 1988. The exercise price will be SwFr 3,500 until mid-December, 1986, and will then increase to SwFr 3,750. Last Friday, the Zurich Stock Exchange quoted Nestle's registered shares at a record price of SwFr 3,500.

On top of the SwFr 300m resulting from the actual bond issue, Nestle will raise at least a further SwFr 350m of equity from the subsequent option deal.

The group's need for large sums of money arises from its ambitious acquisition programme. Last year, takeovers cost it SwFr 825m. This sum will be dwarfed in 1985. The purchase of Carnation in Los Angeles alone will cost $3bn, quite apart from other recent acquisitions, including two San Francisco-based coffee roasters, Hills Brothers and MJB.

Nestle has already made clear that it does not intend to rely on its SwFr 6.3bn cash mountain to finance acquisitions.

Last year Dr Arthur Fuerer, then chairman, warned that "the possibilities of acquiring attractive and promising businesses in our sectors are becoming more and more limited to companies or parts of companies of such a size that even our financial means, however substantial, would find themselves excessively taxed." This was subsequently confirmed by the Carnation purchase.

At the end of last year, the consolidated balance sheet showed "cash in band and at banks, securities and other deposits" of no less than SwFr 6.16bn, though last week's annual report for 1984 points out that a large part of available funds was used at the start of this year bu buy Carnation.

As far as the new borrowing is concerned, the Swiss capital market is currently snapping up interesting new bonds with first-class addresses, even when they are as unusually large as last week's Nestle float. At the same time, Nestle obviously benefits from Switzerland's low coupon levels.

Yet these are not the main considerations for the company's market debut.

The 300,000 new registered shares now waiting in the wings were issued last year as the third stage of a comprehensive operation to broaden the Vevey concern's capital base. This foresaw raising the share capital from just over SwFr 285m to SwFr 330m and approving the creation of bearer participation certificates up to one tenth of share capital.

The issue of the 300,000 registered shares without drawing rights was intended to "guarantee option or conversion rights or for other purposes in the company's interest."

They also had another purpose. Although the new category of equity is without voting rights, the introduction of the bearer certificates — the first block of which was issued last autumn — could have resulted in a reduction of the Swiss majority stake in overall capital to below what Nestle considered an acceptable level.

"For this reason it seems advisable to issue a corresponding number of registered shares," Dr Fuerer said at the 1984 shareholders' meeting. "This could be done through options and convertible bonds," he added, "since the Swiss share capital market is relatively modest and the direct raising of relatively large funds can hardly be accomplished in a reasonable time."

The point is that registered shares, as their name suggests, are entered into a register. The Nestle statutes, like those of many other Swiss companies, lay down that the board has the say as to whose name may be registered as a holder. With a very few exceptions, all owners of registered shares are Swiss. Apart from the desired broadening of Nestle's capital base, the current deal will thus offset any excessive foreign stake in its equity.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Midland Bank (b)†‡	750	–	–	¼	100	S. Montagu	–
Sanwa Int. Fin. ‡	100	1992	7	11½	100	Sanwa Int.	11.500
Credito Italiano (c)†‡	100	1992	7	1/16	100	Chase Manhattan	–
Canon §	100	2000	15	(3)	100	Nomura Int.	*
OKB Φ‡	100	1990	5	10¾	99½	Orion Royal Bank	10.885
American Gen. Corp. §	300	2000	15	(6¾–7¼)	(100)	CSFB	*
Korea First Bank (b)†‡	50	1995	10	¼	100	Nomura Int.	–
CSX ‡	100	1992	7	11½	99¾	CSFB	11.554
Citicorp ‡	100	1995	10	11½	100	Merrill Lynch	11.500
CANADIAN DOLLARS							
Shell Canada ‡	75	1992	7	11¼	100¼	Wood Gundy	11.197
Canadian Nat. Rail. ‡	100	1993	8	11⅜	100	Salomon Brothers	11.375
City of Montreal ‡	75	1995	10	11½	100	Societe Generale	11.500
AUSTRALIAN DOLLARS							
Westpac Banking ‡	40	1988	3	13½	100	Orion Royal Bank	13.500
Avco Fin. Services ‡	35	1990	5	14	100¼	Salomon Brothers	13.927
D-MARKS							
Commerzbank ‡	300	1995	10	0	50	Commerzbank	7.177
Commerzbank ‡	300	2000	15	0	33½	Commerzbank	7.563
EIB ‡	200	1997	12	7⅜	99¾	Deutsche Bank	7.407
SWISS FRANCS							
Toshiba Eng. & Con. **¶‡	70	1990	–	3⅜	100	UBS	3.375
Band Corp. ‡	150 max	1995	–	6¼	100	Soditic	6.250
Odakyu Elec. Rail **¶‡	50	1990	–	3⅜	100	SBC	3.375
Kyushu Elec. Power ‡	100	1995	–	5¾	99¾	SBC	5.784
Tanabe Seiyaku **§‡	100	1990	–	1½	100	UBS	1.500
American Medical ‖	200 max	1997	–	(5)	*	Soditic	*
Ferrovie d'Stato	100 max	1993	–	(5⅞)	100	Bqe Gutzwiller, K.B.	*
Ferrovie d'Stato (a)†	100 max	1993	–	⅛	100	Bqe Gutzwiller, K.B.	–
Itoman & Co. ‡	50	1993	–	5¾	100	Banca del Gottardo	5.750
Yokohama Rubber ¶	50	1990	–	(3½)	*	Banque Paribas	*
Tokuyama Soda **‡	80	1990	–	5¾	99¾	UBS	5.808
Nakabayashi **	30	1990	–	(5¾)	*	SBC	*
Tohoku Elec. Pwr **‡	150	1990	–	5¾	100¼	UBS	5.691
Hartogen Energy **‡	50	1990	–	6¼	100	Banque Scandinave	6.250
Continental Health §	50 max	1995	–	(6)	*	Bqe Gutzwiller, K.B.	*
Meisei Ind. Co. **‡	30	1990	–	5¾	100	Handelsbank	5.750
ECUs							
Benefort (d)†‡	150	1990	5	70bp	100	Salomon Brothers	–
Philips Int. Fin. ‡	75	1993	8	9	100	Bqe Int. a Luxem.	9.000
Yokohama Asia ‡	32	1992	7¼	9⅝	100	CCF	9.625
Council of Europe ‡	40	1992	7	9¼	99¾	Bqe Brux. Lambert	9.300
Council of Europe ‡	20	1995	10	9½	100	Bqe Brux. Lambert	9.500
BAC-COB Savings Bk	28.5	1993	8	9¾	*	Kredietbank Int.	*
GUILDERS							
EIB	200	2000	10½	8	*	AmRo	*
F van Lanschot **‡	50	1990	5	7½	99½	F van Lanschot	7.624
NORWEGIAN KRONE							
SAS	200	1993	8	(10⅛)	*	Christiania Bank	*
YEN							
Malaysia ‡	30bn	1995	9	7.3	99½	Nikko Secs.	7.372

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ‖ Dual-Currency. (a) ⅛ over 6m Libor. (b) ¼ over 6m Libor. (c) 1/16 over 6m Libor. (d) 70bp over 91-day US T-Bills, registered with U.S. SEC. Φ Additional $75m tap. Note: Yields are calculated on AIBD basis.

SBC to seek full banking licence in W. Germany

BY OUR ZURICH CORRESPONDENT

SWISS BANK Corporation, of Basle, is to apply to the West German authorities for an unlimited banking licence for a Frankfurt-based subsidiary.

Schweizerischer Bankverein (Deutschland), which would have initial capital of DM 100m ($32m), is intended to start operations towards the end of this year, offering a "wide range of customer services in the commercial and securities sectors."

The SBC announcement marks a further departure from the former tradition that major Swiss and German banks did not establish full operating subsidiaries in each other's countries.

While the big German banks have in the past two years all set up comprehensive subsidiaries in Switzerland, the Swiss "big three" kept out of the federal republic until January, when Credit Suisse took over the Fuerth-based Grundig Bank In March, Credit Suisse then announced negotiations for the acquisition of a controlling stake in Effectenbank-Warburg, of Frankfurt.

In a communique on its German plans, SBC attributes its decision not only to the importance of the German economy, the D-Mark and Frankfurt's position as a European financial centre, but also to the "more liberal policy of the Bundesbank."

Further growth at Zayre

BY ANDREW BAXTER

ZAYRE, the fast-growing U.S. discount department store group, expects this week to report earnings of $14m or 69 cents a share for the first quarter ended April 27, up sharply from the $10.6m or 53 cents earned a year earlier.

Mr Maurice Segall, president and chief executive, said in London that sales totalled about $755m, up 21 per cent from $622.7m in the 1984 period. For the year ended January 26, Zayre reported net earnings of $80.3m or $3.99 a share on sales of $3.12bn.

Zayre, based in Massachusetts, has grown from sales of $1.4bn in 1978.

First-quarter profits surge at Borregaard

By Fay Gjester in Oslo

BORREGAARD, the Norwegian industrial group, increased first quarter profits to NKr 50m ($5.6m) from NKr 30m in the same period last year, and results for the year should be better than the 1984 figure of NKr 166m, according to Mr Oddmund Sorbuus, the president.

He told the shareholders' annual metting that in addition to the rise in ordinary profits, the group had booked and extraordinary profit of about NKr 80m in the first quarter in connection with the sale by Norsk Hydro of its stake in a chlorine plant, and its acquisition of the food interests of Nora Industrier.

● Ardal og Sunndal Verk (ASV), Norway's largest aluminium concern, achieved a first quarter profit of NKr 160m—in line with budget targets and "a good result in view of the present market situation," the group says. It expects results for 1985 as a whole to be satisfactory but not as good as last year, when a record profit of NKr 1.02bn was achieved.

ASV is paying the state—its sole shareholder—a 16 per cent dividend for 1984.

Power Corp. curbs debt and aims to lift stakes

BY ROBERT GIBBENS IN MONTREAL

POWER CORPORATION of Canada, the holding company controlling major financial services, industrial and resource subsidiaries, has reduced its debt substantially and is now looking for a new project or an acquisition, according to Mr Paul Desmarais, its chairman.

The whole Power Corporation group has raised more than C$700m (U.S.$508m) in equity in the past year, and this has enabled the parent holding company to cut its debt to C$35m. The parent now has maximum flexibility for further expansion, said Mr Desmarais. About 35 per cent of group assets are now in the U.S. and further investment there is likely.

He said Power Corporation intended to raise its voting interest in Pargesa Holding of Switzerland, the international investment banking concern, to 2 0per cent or more.

Power Corporation and subsidiaries hold a total of nearly 11 per cent of Canadian Pacific, Canada's largest transport, resource and industrial group. Mr Desmarais said Power Corporation wants to increase its own direct holding of 5 per cent in Canadian Pacific when the time is opportune.

Shareholders approved a two-for-one stock split, effective from June 3. Power Corporation's net earnings in the first quarter were C$19.8m or 71 cents a share, against C$11m or 43 cents, on revenues of C$25.2m against C$19.7m.

Wider loss for Bastogi

BY OUR MILAN CORRESPONDENT

BASTOGI, the Italian financial and industrial company which is 25.3 per cent owned by the Pesenti family's Italmobiliare holding group, has reported a nearly doubled 1984 loss of L29bn ($14.6m).

The deficit, up from L16.7bn in 1983, was caused mainly by the company's heavy financial charges on its indebtedness, which now stands at L176bn. The debt was only recently reduced from L246bn via the sale of Bastogi's stake in Pierrel, the pharmaceuticals concern.

Icahn considers TWA takeover bid

BY TERRY DODSWORTH IN NEW YORK

MR CARL ICAHN, the Wall Street investor and takeover specialist, is considering a bid for control of Trans World Airlines, the transatlantic carrier, after acquiring a 20.5 per cent stake in the company.

In a filing with the Securities and Exchange Commission, the U.S. securities industry watchdog, Mr Icahn said that he had met with TWA management since the group of companies he controls purchased the holding.

The group had been given no encouragement to make a merger proposal, he added, while a leveraged buyout with management participation did not appear feasible.

Buyouts of this kind have been frequently used by managements recently to escape the attention of investors like Mr Icahn, while giving the unwanted shareholder a premium on the acquisition price of his stock. Last week, Uniroyal, the U.S. company, went private in such a leveraged buyout agreement, yielding Mr Icahn a profit on a hostile stake he had taken

One possibility Mr Icahn said he is considering is a "merger or business combination" with ACF Industries, the industrial equipment company which he acquired last year for $469m. In addition, he said that he might consult TWA management further with a view to "influencing the formulation and implementation of future policy."

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/April, 1985

McDonald's

£40,000,000

McDonald's Corporation

10⅞% Notes Due April 17, 1990

Kleinwort, Benson Limited
Salomon Brothers International Limited
Merrill Lynch Capital Markets

Amro International Limited
BankAmerica Capital Markets Group
Bankers Trust International Limited
Barclays Bank Group
Bayerische Vereinsbank Aktiengesellschaft
Credit Suisse First Boston Limited
Daiwa Europe Limited
Dresdner Bank Aktiengesellschaft
First Chicago Limited
Hill Samuel & Co. Limited
Morgan Guaranty Ltd
Morgan Stanley International
Nomura International Limited
PaineWebber International
Société Générale
Société Générale de Banque S.A.
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
S.G. Warburg & Co. Ltd.

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/April, 1985

U.S. $150,000,000

New South Wales Treasury Corporation

(A statutory corporation constituted by the Treasury Corporation Act, 1983, of New South Wales)

11¾% Guaranteed Bonds due 1990

Payment of principal and interest unconditionally guaranteed by

The Crown in Right of New South Wales

Salomon Brothers International Limited
Merrill Lynch Capital Markets
Morgan Stanley International
State Bank of New South Wales
Banque Bruxelles Lambert S.A.
Credit Suisse First Boston Limited
Deutsche Bank Aktiengesellschaft
IBJ International Limited
Nomura International Limited
Orion Royal Bank Limited
Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd.
Yamaichi International (Europe) Limited

Algemene Bank Nederland N.V. — Banca del Gottardo — BankAmerica Capital Markets Group — Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Bank Leu International Ltd — Bank of Tokyo International Limited — Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A. — Banque Nationale de Paris — Banque Paribas Capital Markets
Bayerische Landesbank Girozentrale — Chemical Bank International Limited — PK Christiania Bank (UK) Limited
Citicorp Capital Markets Group — Commerzbank Aktiengesellschaft — Compagnie de Banque et d'Investissements, CBI. — County Bank Limited
Crédit Lyonnais — Dai-Ichi Kangyo International Limited — Daiwa Europe Limited — *Dominion Securities Pitfield Limited* — *Enskilda Securities* Skandinaviska Enskilda Limited
Die Erste österreichische Spar-Casse-Bank — Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft — Goldman Sachs International Corp.
Great Pacific Capital SA — Hill Samuel & Co. Limited — E. F. Hutton International Inc. — Kidder, Peabody International Limited — Kleinwort, Benson Limited
Kjøbenhavns Handelsbank — Kredietbank N.V. — Lloyds Bank International Limited — LTCB International Limited — Manufacturers Hanover Limited
McLeod Young Weir International Limited — Mitsubishi Finance International Limited — Mitsui Finance International Limited
Morgan Grenfell & Co. Limited — The Nikko Securities Co., (Europe) Ltd. — Nippon Credit International (HK) Ltd. — Sal. Oppenheim jr. & Cie.
Österreichische Länderbank Aktiengesellschaft — Pierson, Heldring & Pierson N.V. — Prudential-Bache Securities International — L. F. Rothschild, Unterberg, Towbin
N.M. Rothschild & Sons Limited — *Saitama Bank (Europe) S.A.* — Schweizerische Hypotheken- und Handelsbank — *Sumitomo Finance International*
Sumitomo Trust International Limited — The Taiyo Kobe Bank (Luxembourg) S.A. — Tokai International Limited
Vereins- und Westbank Aktiengesellschaft — Wardley — Westdeutsche Landesbank Girozentrale
Dean Witter Capital Markets-International — Wood Gundy Inc. — Yasuda Trust Europe Limited

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These Securities have not been offered in Canada in contravention of the securities laws of any province or territory thereof, and all of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/April, 1985

CN

Can. $100,000,000

Canadian National Railway Company

(Wholly owned by the Government of Canada)

12½% Notes Due April 15, 1995

Salomon Brothers International Limited
McLeod Young Weir International Limited
Orion Royal Bank Limited

Banque Bruxelles Lambert S.A.
CIBC Limited
Credit Suisse First Boston Limited
Deutsche Bank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft
Samuel Montagu & Co. Limited
Société Générale de Banque S.A.
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd.
Wood Gundy Inc.

Algemene Bank Nederland N.V. — Banca Commerciale Italiana — BankAmerica Capital Markets Group — Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Bank Mees & Hope NV — Bank of Tokyo International Limited — Bank J. Vontobel & Co. AG — Bankers Trust International Limited
Banque Générale du *Luxembourg S.A.* — *Banque Indosuez* — *Banque Internationale à Luxembourg S.A.* — Banque Nationale de Paris
Banque Populaire Suisse SA Luxembourg — Banque Worms — Barclays Bank Group — Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Landesbank Girozentrale — Bayerische Vereinsbank Aktiengesellschaft — Berliner Handels- und Frankfurter Bank — Burns Fry Limited
Chemical Bank International Limited — Citicorp Capital Markets Group — Compagnie de Banque et d'Investissements, CBI. — County Bank Limited
Crédit Commercial de France — Crédit Industriel et Commercial — Crédit Lyonnais — Creditanstalt-Bankverein — Dai-Ichi Kangyo International Limited
Daiwa Europe Limited — Den Danske Bank af 1871 Aktieselskab — Den norske Creditbank — Deutsche Girozentrale -Deutsche Kommunalbank- — *DG BANK* Deutsche Genossenschaftsbank
Dominion Securities *Pitfield* Limited — *Enskilda Securities* Skandinaviska Enskilda Limited — *Die Erste österreichische Spar-Casse - Bank* — European Banking Company Limited
First Chicago Limited — Fuji International Finance Limited — Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft — Goldman Sachs International Corp. — Great Pacific Capital SA — Hambros Bank Limited
Hessische Landesbank -Girozentrale- — Hill Samuel & Co. Limited — IBJ International Limited — Kleinwort, Benson Limited — Kredietbank S.A. Luxembourgeoise
Kyowa Bank Nederland N.V. — Lévesque, Beaubien Inc. — Lloyds Bank International Limited — LTCB International Limited — Manufacturers Hanover Limited
Midland Doherty Limited — Mitsubishi Finance International Limited — Mitsui Finance International Limited — Morgan Grenfell & Co. Limited
Morgan Guaranty Ltd — Morgan Stanley International — Nesbitt Thomson Limited — The Nikko Securities Co., (Europe) Ltd.
Nippon Credit International (HK) Ltd. — Nomura International Limited — Norddeutsche Landesbank Girozentrale — Sal. Oppenheim jr. & Cie.
Österreichische Länderbank Aktiengesellschaft — PaineWebber International — Pierson, Heldring & Pierson N.V. — *PK Christiania Bank (UK) Limited*
Prudential-Bache Securities International — Richardson Greenshields *of Canada (U.K.)* Limited — *N.M. Rothschild & Sons* Limited — *Sanwa International* Limited
Shearson Lehman *Brothers International* — *Smith Barney, Harris Upham & Co.* Incorporated — Société Générale — Svenska Handelsbanken Group
Swiss Volksbank — *Toronto Dominion International* Limited — Vereins- und Westbank Aktiengesellschaft — Westdeutsche Landesbank Girozentrale
Dean Witter Capital Markets-International — Yamaichi International (Europe) Limited

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All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/April, 1985

U.S. $100,000,000

Taiyo Kobe Finance Hongkong Limited

(Incorporated with limited liability in Hong Kong)

11⅞% Guaranteed Notes Due 1990

Guaranteed as to payment of principal and interest by

The Taiyo Kobe Bank, Limited

(Kabushiki Kaisha Taiyo Kobe Ginko)
(Incorporated with limited liability in Japan)

The Taiyo Kobe Bank (Luxembourg) S.A.
Salomon Brothers International Limited
Morgan Guaranty Ltd
Shearson Lehman Brothers International

BankAmerica Capital Markets Group
Chase Manhattan Capital Markets Group
Chemical Bank International Limited
Citicorp Capital Markets Group
Crédit Commercial de France
Crédit Lyonnais
Daiwa Europe Limited
Goldman Sachs International Corp.
Hambros Bank Limited
Kleinwort, Benson Limited
Manufacturers Hanover Limited
Merrill Lynch Capital Markets
Samuel Montagu & Co. Limited
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Svenska Handelsbanken Group
Swiss Bank Corporation International Limited
Toyo Trust International Limited
Yamaichi International (Europe) Limited

Circaprint up to £0.34m and expansion continuing

Circaprint Holdings, the USM-quoted maker of plated through hole circuit boards, raised pre-tax profits to £336,000 for the half year to February 28, 1985. This compares with £316,000 last time which included £150,000 received under a claim for loss of profits arising from the Aylesford fire.

Turnover for the period increased from £2.35m to £3.74m and was due to an improved customer base and to restored capacity destroyed in the January 1984 fire.

Tax this time took £111,000. There was also an extraordinary credit of £9,000 (£100,000) relating to profit on sale of the old warehouse property. Earnings per 10p share are stated down from 6p to 4.3p.

Dividends will continue to be declared with the full year's results. Last year 0.7p net was paid on £650,000 pre-tax profits.

The group has made a major investment to develop a high multilayer facility adjacent to the existing factory at Aylesford. This will be fully operational from September 1985 and the benefits are expected to accrue in the company's next financial year.

The full potential from the investment made over the past 13 months in the most modern plated through hole plants at both the Aylesford and Exmouth factories has yet to be seen.

The group's order book is satisfactory.

The company has made a move into the U.S. export market and has formed a technical alliance with a leading West German manufacturer.

The £500,000 investment at Aylesford will be supported by Circaprint's new agreement with GEBR Neuweger of Frankfurt agreeing to pool expertise and technical information. Neuwerger has detailed experience of high volume multilayer board production, particularly for the micro-computer industries.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims—ASEA AB, BOC, Matthew Brown, Diploma.

Finals—Dataserve International, Outwich Investment Trust, Readicut International, Stewart Enterprise Investment, Tysons (Contractors), Wolpac.

FUTURE DATES

Interims—

Bush Radio	May 13
Cambrian and Gen. Securities	May 24
Grand Metropolitan	May 15
McCorquodale	June 4
Murray Growth Trust	May 29
Scottish Investment Trust	May 29
Tate and Lyle	May 29
Western Selection	May 15

Finals—

Berry Pacific Fund	May 15
Chamberlin and Hill	May 22
London and Northern	May 23
Moss (Robert)	May 16
Murray Technology Invests.	May 18
Parkland Textile	May 22
Personal Assets Trust	May 17
Stylo	May 14
Tam Group	May 15

SHARE STAKES

Changes in company share stakes announced over the past week include:

Unigroup—Messrs. Goodman, Miller and associates have acquired further shares amounting to 2.84 per cent lifting their combined interest in the equity capital to 16.25 per cent.

Falcon Resources—Gulf International and its wholly owned subsidiary, First Gulf Corporation, have advised that following the purchase of 100,000 shares, the group now beneficially owns 1.3m ordinary shares (8.39 per cent).

Polymark International—On May 2, the Meyer Family Trust, who own more than 5 per cent of the ordinary shares sold 30,000 reducing its holding to 304,978 shares.

Systems Designers International—G. W. Holmes, a director, on May 8, sold 100,000 ordinary shares.

Habit Precision Engineering—On May 3, J. Mayne, the chairman, purchased 46,000 shares.

Baars Industries—C. H. Industrials on the following dates acquired an interest in the shares listed—18,200 on April 12; 22,850 on April 15; 2,000 on April 16; 720,150 on April 17; 105,000 on April 23. CH is now interested in 1,602,503 shares.

Marshall's Universal—R. L. Doughty, a director, purchased 20,835 ordinary shares.

Francis Sumner — Michael Maimann has increased his holding to 1.9m ordinary shares (7.1 per cent).

Yelverton Investment — Following the acquisition of 25,000 ordinary shares on May 3, Clabir International Corporation now holds 1.63m ordinary (20.295 per cent).

Hartons Group—Michael Maimann has reduced his holding to 3.47m ordinary shares (8.1 per cent).

SGB Group—N. L. Clifford-Jones, a director, disposed of 15,000 beneficial shares, leaving his holding at 57,830 shares.

Peters Stores—Mrs S Feld, a director, on May 7, sold 20,000 ordinary shares at 64½p and trustees of Mrs S Feld's trust for her children have sold 30,000 ordinary shares at 61½p. Mrs Feld's beneficial holding is now 483,552 ordinary.

Floyd Oil Participations—J F Frey, a director, on April 29 sold 25,000 shares in which he had an interest.

Selincourt expected to make £1m profit

By Charles Batchelor

Selincourt, the fashionware and fabrics company which is resisting a £17.5m takeover bid led by Mrs Jennifer d'Abo, is expected to disclose 1984-85 profits of around £1m when it reveals details of its defence plan shortly.

Selincourt, which is still recovering from the textile recession, made pre-tax profits of £791,000 in the year ended January 1984. It is also likely to challenge a claim by Mrs d'Abo, head of the Ryman office equipment chain, that the company invited her to become a design consultant last November. The approach, Selincourt says, came from Mrs d'Abo.

Mrs d'Abo, who is making her bid through a publicly quoted shell company Stormgard, said in her offer document that "there is great potential within the Selincourt group that this potential is not currently being maximised."

Mrs d'Abo has the backing of five institutions for her bid. They are Foreign & Colonial Management, Grindlays Brandts, the Life Association of Scotland, the Scottish American Investment Company and the Scottish Northern Investment Trust.

The institutions will inject £5m of new capital into Selincourt while Mrs d'Abo intends to put up £300,000.

BAe offer attracts ¼m

A quarter of a million investors have applied to buy shares in the £550m British Aerospace offer which closed on Friday. With a 55 per cent stake in BAe already reserved for the financial institutions, small investors will be favoured when the basis of allocation is announced today.

This level of applications will probably be seen by the Government as a success for its policy of not attracting as many "new investors" as was the case with British Telecom. When BT was floated last year 2¼m investors applied for shares.

BAe is seen as facing riskier markets than BT and is therefore less suitable for inexperienced investors. There has been no television advertising campaign.

The Government is selling its remaining holding of 48.4 per cent in BAe while the company is raising new funds with a one-for-four rights issue.

Bremner

Pre-tax profits of Bremner, general warehouseman, tumbled from £126,000 to £5,000 in the year to January 31, 1985 and the final dividend is cut to 0.6p (2p) for a net total of 1p, against a previous 2.5p. Turnover, excluding VAT, totalled £3.78m (£3.91m).

Electra

Because of a typographical error an article in last Saturday's paper stated that Electra Investment Trust's $40m fund raising would have, "an immediate diluting effect on existing shareholders." This should have read: "would have no immediate diluting effect."

FT Share Information

The following securities have been added to the Share Information Service:—

BTS Group (Section: Motor Components).

Laidlaw Thomson (Industrials)

Plessurama 7pc Conv. Cum. Red. Pref. (Leisure)

Warner Estate midway advance

An increase in taxable profits from £1.51m to £1.63m was achieved in the half year to end-March 1985 by Warner Estate Holdings, property investor.

Stated earnings per share were up at 9.36p, against 7.57p, and the interim dividend has been raised by 20 per cent to 6p net.

Total turnover amounted to £4.8m, down from £5.03m; generating operating profits of £1.35m, compared with £1.27m—the taxable result was struck after interest of £47,000 (£49,000) and included investment income of £325,000 (£283,000).

Net profits came out at £954,000 (£828,000) after tax of £671,000 (£677,000). There were extraordinary credits of £1.53m (£997,000).

Warner has completed the purchase of the shop investment in London included in capital commitments in the 1983-84 accounts. Since the end of the interim period, contracts have been exchanged for the acquisition of an office property in central London—the aggregate cost of these two properties will be nearly £4m.

Increased activity levels for Yorkshire Chemicals

At the annual meeting of Yorkshire Chemicals, Mr Alan G. Martin, the chairman, said that the increased levels of activity in the latter months of 1984 has continued during the first quarter of 1985.

He said the group expected that sales this year would be divided about 70-30 between dyestuffs and speciality chemicals, but that their profit contributions would be roughly equal.

The company was undertaking a systematic search for additional activities in appropriate fields that would broaden its manufacturing and marketing base, and provide further opportunities for profitable growth.

He said that over 80 per cent of the group's total sales were in overseas markets, and were invoiced in foreign currencies. In his annual statement he had stated that sterling had become more competitive.

However, between writing that and the report being circulated the position had reversed, he said. This volatility was not conducive to international trade.

The group would ride the storm, but believed that a clear and consistent exchange rate policy on the part of the UK authorities was long overdue.

Sales of speciality products had grown nearly four-fold since 1981 and the speciality products division was making a significant contribution to group profits, Mr Martin said.

The plant for the manufacture of high purity sulphones for the photographic and engineering plastics industries — commissioned during 1984—was operating at above designed capacity, and the group intended to double capacity before the year end.

Market conditions for textile dyestuffs—the group's main-stream business—remained very tough, with structural over-capacity world-wide and intense downward pressure on prices. Although the group had increased profits from textile dyestuffs in each of the past three years the returns were inadequate, the chairman said.

The group was currently engaged in a significant programme of change designed to concentrate its dyestuff manufacture in its most modern plant, to simplify production range and to reduce the amount of working capital tied up in its colours business.

CCL marginally higher

PRE-TAX profits of engineering concern, CCL Group showed a marginal increase from £524,000 to £551,000 in 1984, on a turnover of £10.04m, against £9.57m.

Mr D. L. Worthington, the chairman, says that although the year was not an easy one, excellent results were achieved by the major group company, CCL Systems. However, profits were hit by the performance of the South African subsidiary.

The final dividend is 6.4p net making an unchanged total of 8.4p per £1 share. Earnings per share are stated as 41p (43p) basic or 27p (29p) fully diluted.

The company's shares are traded on the over-the-counter market made by Granville & Co.

Tax took more at £271,000 (£236,000) giving a lower net balance of £280,000 (£288,000). Last year there was also an extraordinary charge of £366,000. Preference dividends absorb £138,000 (same) and ordinary payments cost £29,000 (same).

CCL Systems raised profits by over 20 per cent from £683,000 to £824,000 on turnover up by 5.8 per cent. Mr Worthington says this has been the result of much effort being devoted to improvement of existing product lines, which is beginning to bear fruit. Determined efforts continue to be made to obtain a larger share of available business, at improved margins, wherever possible.

Exports continue to be a predominant feature of the company's business and in the last few weeks a major order for the supply of materials to be used in the construction of an Italian nuclear reactor has been obtained.

The chairman says he firmly believes that most of the group's problems are behind it and that "we can look forward with confidence to a sound and expanding future."

The group specialises in systems for the stressing of concrete, joining reinforcing bars, the mechanical splicing of wire ropes and products for the electricity distribution industry.

FINANCIAL TIMES STOCK INDICES

	May 10	May 9	May 8	May 7	May 3	May 2	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Government Secs.	80.30	80.06	80.08	80.66	81.10	81.08	82.00	78.02	127.4	49.0
Fixed Interest	83.47	85.38	85.55	86.70	85.76	85.68	88.18	82.17	150.4	50.0
Ordinary	1001.2	991.1	988.5	985.8	989.8	989.9	1024.3	928.7	1024.5	49.4
Gold Mines	423.9	491.9	478.5	470.4	483.3	495.4	536.9	439.5	734.7	43.4
FT Act. All-Share	632.35	629.28	629.86	628.38	630.94	629.68	625.33	581.82	632.53	61.92
FT-SE100	1315.8	1306.3	1307.9	1305.5	1310.2	1309.1	1315.8	1206.1	1315.8	986.9

LADBROKE INDEX

991-995 (+6)

Based on FT Index

Tel: 01-427 4411

Clerical Medical Managed Funds Limited

	Bid	Offer	Change
Cash Fund	146.8	146.8	+0.3
Mixed Fund	213.6	218.9	+1.7
Fixed Interest Fund	191.6	194.5	−1.6
UK Equity Fund	241.2	248.4	+3.3
Property Fund	132.6	138.6	+1.0
Overseas Fund	223.0	234.2	+3.5
Index Linked Fund	115.8	117.5	−0.3
Stock Exchange Fund	122.8	125.9	+1.0

Prices 8th May 1985 Unit dealings on Wednesday

Initial unit prices available on request, telephone 0272-290566

RECENT ISSUES

EQUITIES

Stock	Closing price p	+ or −
Anglo-EastPlantsUnit	42pm	
Aspen Comms. 5p	181	+1
Asda Property 20p	178	
Assoc. Steel Dist.£1	172	+4
Banco de Bilbao S.A.	800	
Banco de Santander	570	
Bedford (William) 5p	180	
Blagden Inds.	160	
Claysform Props. 5p	170	
Colorol 10p	184	+5
Domino Print. Science	170	
Electron House 10p	127	+5
German Smlr. Wrrts.	42	
Howard Group 5p	190	
Huntleigh Tech 5p	200	+5
MartinCurrie Pac.50p	103	
Maxiprint 1p	80	
Moorgate Group 5p	149	
New London Oil 5p	173	
Norscot Hotels 50p	115	
P.&O. Warrants	76	
Pepe 10p	84	
Persimmon 10p	108	
Plantation Tst	81	
Do. Warrants	34	
Prestwick Gp	104	
REA Warrants	75	
Scott Greenham 10p	107	
Sherwood Com 10p	195	
Sintrom 10p	183	
Wayne Kerr 10p	140	
Wyko Group 10p	69	

FIXED INTEREST STOCKS

Stock	Closing price £	+ or −
Bramall (C.D.) 10% Cnv. Uns. Ln. 2005	100	
Inc. Am. Dev. 9¼% Ln. 2015	[illegible]	
Malaysia 10¼% Ln. 2009	[illegible]	
Nationwide Bldg. Soc. 12¼%	[illegible]	
Nationwide 12⅝%	[illegible]	
Plantation Trst 7½% Cnv. Uns. Ln. 2000	95	
Queens Moat 7% Cnv. Rd. Prf.	[illegible]	
Saatchi 5.5% Cnv. Cum. Red. Pref.	[illegible]	
Spain Kingdom of 11¾% Ln 2010	[illegible]	
Williams Hldgs 5% Cum. Cnv. Prf.	125	
Do. 10½ Cum. Prf.	112	

RIGHTS OFFERS

Stock	Closing price p	+ or −
Aaronson Bros. 10p	112	
BSA	8	
Bank of Scotland £1	153pm	
Barclays £1	[illegible]	
Berkeley Group	155pm	
Floors	[illegible]	
Grampian Hldgs	14pm	
Hoskins	[illegible]	
LASMO	297	
Memec 10p	48pm	
Mitchell Cotts	72	
Morgan Crucible	[illegible]	
Nationwide Leisure	3pm	
Newman Inds. 10p	2pm	
Oliver Prospecting	55	
Rivlin (L.D.S.) 5p	4pm	
Scottish Mortgage	407	
Second Market Inv. 5p	11pm	
United Biscuits	167	
Worthington (A.J.)	24	

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. ‡ Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. || Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ■ Introduction. ‡ Unit comprising 4 Ord. + 1 Warrant and £1.00 of 12½ per cent Uns.Ln. stk. 1986-89.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Aitken Hume	May 29	Final 4.0
*Allied Irish Banks	May 22	Final due
Allied-Lyons	May 29	Final 4.39
Amersham International	June 11	Final 3.1
Anglo Amer Corp SA	June 4	Final 85c
Assoc British Foods	May 21	Final 3.4
*Aust and NZ Banking	May 20	Interim 15c
*BOC	May 13	Interim 3.15
*Bank of Ireland	May 18	Final 12.0
*Bass	May 22	Interim 3.3
Bassett Foods	June 13	Final 4.55
Beecham	June 14	Final 5.6
*Boots	May 30	Final 3.6
British and Com Shipping	June 14	Final 9.5
Capital and Counties	May 29	Final 3.3
Carless Capel	June 3	Final 1.75
Centrovincial Estates	June 14	Final 3.0
Coalite	May 30	Final 4.13
*Courtaulds	May 28	Final 3.0
De La Rue	June 5	Final 18.4
Elliott (B.)	June 14	Final nil
English China Clays	June 14	Interim 3.2
Extel	May 24	Final 9.0
*Gerrard and Nat Discount	May 21	Final 8
*Grand Metropolitan	May 15	Interim 3.7
Great Portland Ests	June 12	Final 4.5
Guiness	June 12	Interim 1.82
Guinness Peat	May 17	Interim 0.8
*Habitat Mothercare	June 8	Final 4.5
Hanson Trust	June 3	Interim 1.75
Harrisons and Crosfield	May 30	Final 26.0
*Heath C. E.	May 18	Final 11.75
Hill Samuel	June 5	Final 7.5
*Land Securities	May 14	Final 4.91
London and Northern	May 23	Final 7.8
*MEPC	May 29	Interim 2.5
McCorq'dale	June 5	Interim 2.0
Metal Box	June 12	Final 9.19
Pegler Hattersley	June 8	Final 8.5
Pilkington Bros	June 13	Final 6.5
Plessey	May 24	Final 2.24
*RNM	May 21	Interim 1.8
Reed Intnl	June 5	Final 11.6
Sainsb'y (J.)	May 22	Final 5.1
*Sears	May 14	Final 1.8
*600 Group	June 13	Final 2.91
Sketchley	June 5	Final 8.9
Smith Bros	May 30	Final 4.0
Staveley Inds	June 14	Final 8.5
*Tate & Lyle	May 26	Interim 8.5
Tesco	June 13	Final 2.5
United Scientific	May 15	Interim 2.0
Valor	June 14	Final 2.926
Westland	June 13	Interim 3.0
*Whitbread	May 22	Final 4.4
*Wolverhampton & Dudley Brws	May 29	Interim 2.55

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Granville & Co. Limited

Member of The National Association of Security Dealers and Investment Managers

Over-the-Counter Market

8 Lovat Lane London EC3R 8DT Telephone 01-621 1212

Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,936	Ass. Brit. Ind. Ord.	145	+1	6.6	4.3	8.0	8.8
—	Ass. Brit. Ind. CULS	150	+1	10.0	6.8	—	—
3,125	Airsprung Group	64	—	—	—	—	—
850	Armitage and Rhodes	34	+1	2.4	11.9	5.0	7.1
45,506	Bardon Hill	146	+2	2.9	8.5	4.2	7.1
2,860	Bray Technologies	52	—	3.4	2.3	14.7	24.5
1,977	CCL Ordinary	172	+2	3.9	7.5	6.3	7.3
—	CCL 11pc Conv. Pref.	110	—	12.0	7.0	—	—
7,008	Carborundum Ord.	117xs	−1	15.7	14.3	—	—
616	Carborundum 7.5pc Pf.	88	—	4.8	4.2	5.2	8.1
3,835	Deborah Services	49	—	10.7	12.2	—	—
20,441	Frank Horsell	320	—	6.3	13.3	4.7	7.5
—	Frank Horsell Pr.Ord.87	280	—	—	—	12.9	16.8
4,189	Frederick Parker	29	+1	2.5	3.7	10.4	13.7
1,052	George Blair	57	—	—	—	—	—
812	Ind. Precision Castings	20	−1	—	—	3.8	7.7
14,524	Isis Group	185	−1	2.7	13.5	5.5	5.9
5,468	Jackson Group	105	+1	15.0	8.1	7.3	13.3
33,003	James Burrough	238	—	4.9	4.7	4.9	9.5
3,065	James Burrough 8pc Pf.	89	—	13.7	5.8	8.4	8.4
8,862	John Howard and Co.	86xd	+1	12.8	14.5	—	—
3,760	Linguaphone Ord.	225	+4	5.0	5.8	8.9	10.8
—	Linguaphone 10.5pc Pf.	98	—	—	—	6.3	8.6
17,558	Minihouse Holding NV	645	−5	15.0	15.3	—	—
571	Robert Jenkins	56	+4	2.9	1.1	29.1	26.8
1,440	Scruttons "A"	34	—	5.0	8.9	—	—
1,855	Torday and Carlisle	76	—	5.7	16.8	17.8	4.1
7,436	Trevian Holdings	330	—	—	—	8.2	17.3
4,710	Unilock Holdings	30	—	4.3	1.3	18.8	18.4
12,793	Walter Alexander	100	+2	1.3	4.3	14.6	21.0
5,237	W. S. Yeates	224	+3	7.5	7.5	8.8	12.0
				17.4	7.7	5.4	10.9

Prices and details of services now available on Prestel, page 45146

UK COMPANY NEWS

Upward tendency for gold market

"Will gold ever resume its former glory?" ask bullion dealers Samuel Montagu in their latest annual review. Their answer to the rhetorical question is: "History suggests that the long bear market will not immediately be replaced by rampant bullishness. A period of consolidation is much more likely, but the general tendency should be upwards."

They suport "the assumption that it is time to take a more positive view of gold" with the feeling that the U.S. dollar has peaked against a background of pointers to a slowing down in the country's economy," as a consequence inflation is likely to pick up."

Samuel Montagu also believe that at the lower dollar price levels there is sufficient physical demand to absorb coming increases in gold production. They also feel that the major disinvestment in the metal seen during recent years has run its course.

Concern remains about the debt position of many lesser developed countries, but it is considered that the prospect of wholesale dumping of the metal by them has receded. However, the prospect of possible damage of their debts to the financial system, particularly in the U.S., remains.

The next major review of gold will be coming along on May 28 when Consolidated Gold Fields is due to publish its highly regarded annual survey of the subject, "Gold 1985" by Louise du Boulay.

TR Technology net assets rise by 11.5% and revenue over £4m

TR Technology Investment Trust raised net asset value per 25p share, by 11.5 per cent in 1984-85 from 109.3p to 121.9p after deducting prior charges at par.

Net revenue climbed from £3.73m to £4.1m for the year to March 31. Stated earnings per 25p share were up 0.17p to 1.83p and a final dividend of 1.22p makes a total of 1.72p, against an adjusted 1.65p.

Total income increased from £8.44m to £10.36m. Debenture and loan interest payable was up sharply from £1.45m to £2.85m. Administration expenses took £879,000 (£644,000) and tax charge was £2.53m, against £2.62m.

The geographical spread of investments was: U.S. 46 per cent, UK 35 per cent and Japan 15 per cent. A change in emphasis from Japan to the U.S. reflected a belief that the Japanese market in general, and particularly technology stocks, appeared to be over valued.

Therefore, £15m was switched to the U.S. to take advantage of the depressed market in smaller technology companies.

In February this year, the Berkeley Consulting Group, which represents the company's largest investment, achieved a full quotation on the London Stock Exchange in the name of Berkeley Technology. TR Technology sold part of its holdings and Berkeley raised approximately $44m of new capital for investment on its own account.

As a result, TR Technology's holding in Berkeley has been reduced from 40 per cent to 16.4 per cent of the equity, but the company intends to retain the close relationship.

Further action was taken on currency early in March with the purpose of protecting the acount from a fall in the dollar —$12m was borrowed for 18 months at 12¼ per cent, the dollars were sold at $1.07 and approximately £15m invested in UK Government stocks. As e result, there is now virtually no revenue exposure to the dollar while the capital account exposure has also been reduced.

COMPANY NEWS IN BRIEF

Rightwise, plantation holding company, turned in e pre-tax profit of £308,000 in 1984, against a £45,000 loss previously. After tax of £18,000 (£74,000 credit) stated earnings per 10p share increased from 1.4p to 11.4p.

Attributable surplus was £326,000, compared with £4.23m in 1983 which included an extraordinary credit of £4.2m. The company is a subsidiary of REA Holdings.

* * *

Taxable profits declined from £103,335 to £45,009 at Stormgard in 1984 as a result of a sharp fall in income from fixed asset investments from £65,945 to £1,143.

Turnover slipped from £53,812 to £41,858. After tax at £13,336 (£39,437) earnings per share are stated at 0.72p (1.45p). There is no dividend for the year.

* * *

Dualvest had e net asset value of £13.10 et end-March 1985, compared with £10.86 a year earlier.

The final dividend is lifted from 4.367p to 5.252p, bringing the total for the year to 9.982p (8.478p). Stated earnings per 50p income share rose from 8.478p to 9.952p.

Net revenue of this investment trust improved to £898,000 (£763,000). Tax took £428,000 (£372,000).

* * *

Yearling bonds totalling £5m at 12$\frac{1}{16}$ per cent, redeemable on May 14 1986, have been issued by the following local authorities: Eastleigh (Borough of) £0.25m; Medina BC £0.25m; St Helens Metropolitan BC £0.5m; Fife Regional Council £1m; Hammersmith and Fulham (London Borough of) £2.5m; Cumnock and Doon Valley District Council £0.5m.

* * *

Net assets/attributable to all shareholders equity of the Berry Pacific (Sterling) Fund at March 31 1985, amounted to £31.75m, compared with £33.34m a year earlier. Net income for the year totalled £262,704 (£270,329).

* * *

Aidcom International's subsidiary Allied International Designers has signed a joint venture agreement with Intraco, the major SE Asia based trading organisation. Under the agreement Intraco will acquire a shareholding of 20 per cent in Allied International Designers Singapore.

Good start made by Church in current year

Mr I. B. Church, chairman of Church & Co, told shareholders at the AGM that the year had started well and the factories were still "exceedingly busy."

Retailing in the UK was much better than the first quarter of 1984, while overseas, Canada had better retail sales and had a good Government order for shoes.

In the U.S., sales had not shown the same growth as in the first quarter of 1984, but Mr Church considered them to be satisfactory.

Church had just opened a new shop in Boston and a new shop will also open in Atlanta in June or early July, he said.

Fundinvest improvement

Net asset value per 25p capital share of Fundinvest increased to 379.6p as at March 31 1985, against 333.5p six months earlier.

Pre-tax revenue for the six months improved from £375,000 to £411,000. After tax of £129,000 (£114,000) stated earnings per 25p income share were 2.262p, against 2.071p. The net interim dividend is up from 2.071p to 2.262p—last year's final was 3.038p.

Dividends and interest received was little changed at £382,000 (£383,000). Deposit interest added £73,000 (£39,000) and underwriting and other commissions came to £12,000 (£8,000). Expenses and interest were unchanged at £55,000.

THE WEEK IN THE COURTS

When guilty intent is not a crime

THE criminal law has long been the Cinderella of the English legal system as far as jurisprudence is concerned, although the part it plays within the system has been not so much despised by our legal luminaries as disdainfully ignored.

With the notable exceptions of such unlikely Prince Charmings as Mr Justice Stephen in the last century and Lord Devlin in the present one, English judges have appeared anything but eager to conduct a juristic courtship with either the administration of criminal justice or the substantive criminal law.

This is, in part, explicable by the absence until the beginning of this century of any appellate process and the very limited role of the House of Lords as the final court of criminal appeal until 1960. When the Law Lords did become involved in the act of hearing criminal cases of general public importance, their record of sound decision-making was patchy, to say the least.

Last week's decision in *Anderton v Ryan* will appear as a redemption for many past judicial sins. The Law Lords (with the notable dissent of Lord Edmund-Davies, a former chairman of the Criminal Law Revision Committee) held that where a person dishonestly handles goods in the belief that they are stolen goods, but these goods are in fact not stolen, that person is not liable to be convicted of attempting dishonestly to handle stolen goods contrary to Section 1 of the Criminal Attempts Act 1981.

In short, their lordships have said in effect that no one can be guilty of the crime of attempting to do what is legally impossible. If you cannot be guilty of the consummated offence—of stealing, or of dishonestly handling stolen goods—you cannot be guilty of that crime.

If a man walks away with his own umbrella from the umbrella stand, believing it not to be his own and with the intent to steal it, he commits no crime. Likewise, if a man has intercourse with a girl over 16 with her consent, believing her to be under age and therefore not able to give consent, no crime is committed.

The common feature of all these examples, including the facts of *Anderton v Ryan*, is that the accused's intention is a guilty one, but that his act is innocent.

It has long been a basic principle of the criminal law that no one shall be guilty of a criminal offence on account of any act or omission which did not constitute a crime at the time it was committed. It would be contrary to that principle to find a person guilty of an attempt to do an act, by adjudging that person's attempt according to the law as that person thought it to be and not by the law as it is. The House of Lords in 1975 reaffirmed the basic principle in a case of an attempt to steal where stolen goods had been recovered and therefore ceased at the moment of restoration to be stolen goods.

There ensued considerable discussion whether that was a satisfactory state of affairs. There was a good deal of toing and froing between the Law Commission and the Home Office before parliament finally intervened in the Criminal Attempts Act 1981.

There was clearly one type of case where the law needed to be altered. Supposing a person sets out to rob a bank but is thwarted only by the fact that the police are waiting in ambush. But for police intervention, the robbery would have taken place.

Section 1(2) of the 1981 Act provides that a person may be guilty of attempting to commit an offence "even though the facts are such that the commission of the offence is impossible." That clearly covered the case, such as the robbery example, where there was factual impossibility by police interception. But was the language of parliament apt to cover the case of legal impossibility? Most parliamentarians and some legal commentators thought parliament was covering both kinds of impossibility, legal and factual. The lower courts acted in accordance with that view. But, as Lord Bridge of Harwich said in *Anderton v Ryan*, it would be surprising to find that parliament, if intending to make such purely subjective guilt criminally punishable, should have done so by anything less than the clearest language.

Lord Roskill also thought that the draftsman of the Act had used language that fell a long way short of anything so drastic and far-reaching. He went on to proffer a redraft for future legislators. He suggested wording along the lines of "if a person does an act which, if the facts were as that person believed them to be, would amount to an offence to which this section applies, he shall be guilty of attempting to commit that offence."

The only sure way of making a crime out of the attempt to do the legally impossible is for parliament to use some formula such as "the law is to be taken as the defendant believes it to be." No legislature, one presumes, would ever do something so blatant because it would mean, for example, that a person could be charged (and presumably convicted) on an indictment alleging that he attempt to smuggle currency into the country, although there is no such offence known to the law.

The difficult case is where, unlike smuggling currency, there is a crime, such as smuggling or dealing in controlled drugs. There is in fact a case coming shortly before the House of Lords raising just such a problem. An accused was suspected of dealing in cocaine when he was arrested by Customs officers with a parcel that looked suspiciously like a package of drugs. When questioned he admitted that he believed he was acting as a courier for drug dealers.

When the contents of the package were examined they were found to be tea-leaves. He was charged with attempting to deal in controlled drugs.

Both that case and the facts of *Anderton v Ryan* must assume a crime before there can be a conviction for that crime, or for an attempt to commit that crime. The relevant crime in *Anderton v Ryan* was handling stolen goods. To convict Mrs Ryan, the courts assumed a crime of handling non-stolen goods believed to be stolen. The House of Lords rejected the assumption. So presumably the tea-leaf carrier cannot be guilty of the crime of dealing in non-controlled drugs (ie tea-leaves) simply because he believed them to be controlled drugs.

There may be a case for altering the law to make such conduct an offence, but to do so the statute must delete the requirement that the goods must be stolen or must be controlled drugs, thus making the guilty intent the crime without more ado. Is that what parliament will do in the light of the judges' rejection that the 1981 Act has already achieved it? Jurisprudentially, it is an unattractive proposition.

Justinian

CONTRACTS

Orders for AMEC group at home and abroad

Companies in the AMEC group have won contracts worth a total of £10.9m. C V Buchan (Concrete) has a £5.4m order from the Anglo Egyptian Cairo Wastewater Consortium for the supply of precast segmental tunnel linings to Contract 3 of the Greater Cairo Wastewater Scheme. The segments will be manufactured in the precast factory of Specialised Contracting and Industries Company (member of the Osman Group of Companies) at Helwan near Cairo. All the moulds for the casting of the segments together with technical supervision will be provided by C V Buchan.

Southern Gas has engaged Press Construction for a long-term distribution programme of pipelaying and repair. On a two-year contract, thought to be worth around £3m, Press's utilities division will lay mains and services and carry out repairs and maintenance in the Reading area. The programme, which started in April, is likely to require at least 25 mobile work crews, who will operate out of a new Press depot in the town.

Fairclough Building has won a £2.5m refurbishment project at Plessey's Merseyside production facility, where the System X telecommunications system is made. Divided into three phases, the project entails reducing the height from three to two storeys on two buildings, then removing the existing envelopes and replacing them with mirrored glazing, with brickwork below to dado level.

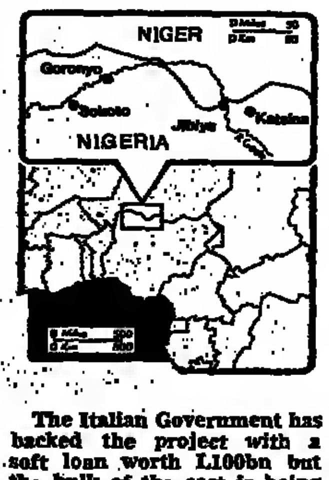
Wimpey wins Welsh work

A contract valued at about £2m for supplying and laying flexible surfacing to 6 miles of single carriageway of a new section of the Chester to Bangor A55 trunk road has been placed by Cementation Costain Joint Venture with WIMPEY ASPHALT.

£110m irrigation scheme

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

IMPRESIT, the construction subsidiary of Italy's Fiat group, has won a contract worth L270bn (£110m) for a dam and irrigation plant in Jibiya in Nigeria.



The project — which will take three years — involves a dam on the Gada river to store water during the rainy season for irrigating more than 3,500 hectares of arid land and provide drinking water for 200,000 people in the Katsina area.

A network of drainage canals and water purification plant will be built and all areas to be cultivated will be levelled. Impresit will then train farmers to handle the irrigation equipment and teach them cultivation techniques.

The Italian Government has backed the project with a soft loan worth L100bn but the bulk of the cost is being borne by the Federal Government of Nigeria.

The project is part of a vast agricultural development plan designed by Impresit to halt the advance of the desert in the north west of Nigeria and ensure that the area's 10m inhabitants will eventually be self sufficient.

The company has completed two irrigation projects in Nigeria; at Goronyo, where a dam was built across the Rima river, and the US$500m Bakolori project. These semi-desert areas have now been turned into farmland which produces around 100,000 tonnes a year of cereal, fruit and vegetables.

Impresit has trained more than 2,000 Nigerian technicians and workers in connection with these irrigation projects.

Notice of Redemption and Expiration of Conversion Rights

ISE Finance Holdings S.A.

4½% Sinking Fund Debentures Due 1986

(Convertible on and after January 1, 1967 into Common Stock of International Telephone and Telegraph Corporation)

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of March 1, 1966, as amended, under which the above described Debentures were issued, ISE Finance Holdings S.A. has called all of its 4½% Sinking Fund Debentures due 1986 for redemption on June 14, 1985 (the "Redemption Date"). The Debentures will be redeemed at 100% of the principal amount thereof plus accrued interest to the redemption date.

The Debentures will become due and payable, and Upon Presentation and Surrender Thereof (with all coupons appertaining thereto, maturing after March 1, 1985), will be paid on said redemption date at the Bondholder Services Department, 5th Floor of Citibank, N.A., 111 Wall Street, New York, N.Y. 10043, at the offices of Citibank, N.A., in London and Paris, or at the office of Societe Generale de Banque S.A. in Brussels, Dresdner Bank Aktiengesellschaft in Frankfurt and Banque Generale du Luxembourg in Luxembourg, as the Company's Paying Agents. On and after said redemption date, interest on said Debentures will cease to accrue.

The Debentures may be converted at the option of the holders thereof and at the principal amount thereof into fully-paid and non-assessable shares of Common Stock of International Telephone and Telegraph Corporation ("ITT") at the conversion price of $40.45 per share upon delivery of such Debentures to any of the offices above accompanied by written notice addressed to ITT electing to convert such Debentures and stating the name(s), address of the person(s) for registration of the shares of Common Stock and whether such person(s) or beneficial owner(s) are aliens as to the United States, with all unmatured coupons appertaining thereto attached, at any time until the close of business on said redemption date. Upon conversion of any Debenture, no payment or adjustment on account of interest accrued on any Debenture so converted or on account of any dividends on the Common Stock delivered upon conversion will be made and no fractional shares of Common Stock will be issued. AT THE CLOSE OF BUSINESS ON SAID REDEMPTION DATE SUCH CONVERSION RIGHTS WILL TERMINATE.

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Compliance Act of 1983 unless the Paying Agent has the correct tax identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your securities.

ISE FINANCE HOLDINGS S.A.
By: Citibank, N.A. as Trustee

May 13, 1985

APPOINTMENTS

New Simon Engineering chief

SIMON ENGINEERING has appointed Mr David Bates as chairman of its food engineering group. He was previously a vice-chairman and before that was managing director of Simon-Rosedowns from 1971-84. Simon Engineering Dudley has appointed Mr Tim Bradford and Mr Roy Bradley to the board as financial director and production director respectively.

★

Following the annual meeting of the Scottish unit of THE STOCK EXCHANGE Mr William B. Carmichael was elected chairman, and Mr Colin M. Brown, deputy chairman. Mr Carmichael, senior partner of Aitken Campbell and Co., stockjobbers, Glasgow, is the first stockjobber to be elected to the post. Mr Brown is a partner of Campbell Neill and Co., stockbrokers, Glasgow.

★

Mr Richard Robinson has been appointed to the main board of MICHAEL PAGE PARTNERSHIP, financial recruitment division of Addison Page. Mr Nigel Halsey becomes managing director of Michael Page City, banking, investment and insurance recruitment subsidiary of Addison Page. Mr Halsey was previously head of executive search and selection at Peat Marwick.

★

CONCENTRIC GROUP has appointed Mr David A Deeming as managing director of its Cannock subsidiary Norton Aluminium Products. He joins from Birmingham Mint Products where he was sales director.

★

WARD WHITE GROUP has made the following changes in management appointments in its retail organisation. Mr Tony Beechey, at present, managing director of Focus Shoes division, is appointed president and chief operating officer of Hofheimer's Inc. Hofheimer's is a wholly-owned U.S. subsidiary based in Norfolk, Virginia, operating some 90 stores throughout the sunbelt states. It is expected that Mr Beechey will take up his duties in August at the time of the retirement of the current president, Mr Lewis D. Hirschler.

Mr John Hanna is appointed managing director of Focus Shoes, running the shoe retail division. Mr Hanna was previously merchandise director for the womenswear sector of Burton Group. He joins on June 10.

★

Mr Chris Laurence, an assistant investment manager of EQUITY AND LAW is also to become secretary of Equity and Law Unit Trust Managers in succession to *Mr Brian Bonnington.*

★

BINDER HAMLYN has made *the following partnership* changes. Mr Adrian Dicker and Mr Geoffrey Pink become partners in London, Mr Robert Ralston in Glasgow, Mr Christopher Roulston in Leeds, Mr Peter Blomeley in Manchester and Mr Paul Castledine in Nottingham. Mr Pink will be a partner in Binder Hamlyn Associates. Mr *John Roddis* and Mr Ian Vardey become partners in the Sheffield office on the merger of their firm with Binder Hamlyn. Mr Richard Webb, a partner in the Manchester office, will be transferring to London.

★

Mr William A. Jones has joined ADVENT, high technology venture capital company. Previously he was responsible for European business development with Motorola and chief executive of Plessey in Germany and Austria.

★

Mrs J. H. Bingley has been appointed secretary of NEIL & SPENCER HOLDINGS and its UK subsidiaries. Mr E. J. D. Hood has been appointed finance director of Neil & Spencer Limited.

★

HODGSON MARTIN, Edinburgh, has appointed Mr Arnold Kingsnorth as a non-executive director. Until last year he was a director of Scottish Widows Fund and Life Assurance Society, having been general manager from 1974 to 1978.

★

At PLATONOFF AND HARRIS, Mr David L. Thomas becomes director and general manager on June 1. Platonoff and Harris is a subsidiary of Taddale Investments.

★

DIXONS COMMERCIAL PROPERTIES, property arm of the Dixons Group, has been re-organised following the acquisition of Currys Group. Mr Brian Bennett is appointed chairman, with Mr Michael Heaton and Mr Richard Kalms as joint managing directors. They also join the board of Currys Properties. Further appointments to the DCP board are: Mr Jonathan Hamlyn, commercial director; Mr David Bennett, development director; and Mr Raymond *Epstein, financial director.*

★

AMERICAN EXPRESS has appointed Mr John Pritchett as director of marketing—service establishments, responsible for *marketing the charge card* company's services to restaurants, hotels, retail outlets, car hire firms, travel agencies, airlines, garages and other service agencies.

★

ILLINGWORTH, MORRIS has appointed Mr Peter G. Trowell as group financial director, replacing Mr W. M. Gibson, who has resigned from May 31.

★

MINET HOLDINGS has appointed Mr Christopher W. Keey as joint deputy chairman. He has been with the group since 1962.

★

Mr John Green is to be the new port manager at Lowestoft. He is personnel and industrial relations manager at *Southampton*, and takes over at Lowestoft from Mr Ray Klinck who is to be deputy port manager at Hull.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

Grampian Hldgs, Stag House, Castlebank Street, Glasgow, 12.00

[illegible]

Givnwed Intnl, Headland House, New Coventry Road, Sheldon, Birmingham, 12.00

Hunting Petroleum, 243, Knightsbridge, SW, 10.00

[illegible]

Beaufort Group, George Hotel, Huddersfield, 12.00

British Mohair Hldgs, Victoria Hotel, Bridge Street, Bradford, 12.00

Collins (William), Westerhill Road, Bishopbriggs, Glasgow, 11.00

DRG, 1, Redcliffe Street, Bristol, 12.00

Iceland Frozen Foods, Grosvenor Hotel, Eastgate Street, Chester, 12.00

Johnson Group Cleaners, Barber-Surgeons Hall, Monkwell Square, EC, 12.00

New Darien Oil Tst, North British Hotel, Princes Street, Edinburgh, 12.00

New London Properties, Hilton Hotel, Park Lane, W, 12.30

Queens Moat Houses, Northampton Moat House, Silver Street, Northampton, 12.00

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

TOMORROW

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

WEDNESDAY MAY 15

COMPANY MEETINGS—

[illegible]

THURSDAY MAY 16

COMPANY MEETINGS—

[illegible]

FRIDAY MAY 17

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

SATURDAY MAY 18

DIVIDEND & INTEREST PAYMENTS—

[illegible]

SUNDAY MAY 19

DIVIDEND & INTEREST PAYMENTS—

[illegible]

N. Z. FOREST PRODUCTS LIMITED

U.S. $25,000,000 9% BONDS DUE 1986

In accordance with Condition 4 (o) (iv) of the Bonds, Bondholders are hereby advised that in the 12 months to 15th March 1985, the aggregate principal amount of Bonds purchased and cancelled was $509,000 and a deficiency of $991,000 is carried forward to the 6 month period ending 15th September 1985.

N. Z. FOREST PRODUCTS LIMITED

BASE LENDING RATES

A.B.N. Bank	12½%	■ Hill Samuel	§12½%
Allied Irish Bank	12½%	C. Hoare & Co.	12½%
American Express Bk.	12½%	Hongkong & Shanghai	12½%
■ Henry Ansbacher	12½%	Johnson Matthey Bkrs.	13 %
Amro Bank	12½%	Knowsley & Co. Ltd.	13½%
Associates Cap. Corp.	13 %	Lloyds Bank	12½%
Banco de Bilbao	12½%	Edward Manson & Co.	14 %
Bank Hapoalim	12½%	Meghraj & Sons Ltd.	12½%
BCCI	12½%	Midland Bank	12½%
Bank of Ireland	12½%	■ Morgan Grenfell	12½%
Bank of Cyprus	12½%	Mount-Credit Corp. Ltd.	12½%
Bank of India	12½%	National Bk. of Kuwait	12½%
Bank of Scotland	12½%	National Girobank	12½%
Banque Belge Ltd.	12½%	National Westminster	12½%
Barclays Bank	12½%	Northern Bank Ltd.	12½%
Beneficial Trust Ltd.	13½%	Norwich Gen. Trust	12½%
Brit. Bank of Mid. East	12½%	People's Trust	14 %
■ Brown Shipley	13 %	Provincial Trust Ltd.	13½%
CL Bank Nederland	12½%	R. Raphael & Sons	12½%
Canada Permanent	12½%	P. S. Refson	12½%
Cayzer Ltd.	12½%	Roxburghe Guarantee	13½%
Cedar Holdings	13 %	Royal Bank of Scotland	12½%
■ Charterhouse Japhet	12½%	Royal Trust Co. Canada	12½%
Choulartons**		■ J. Henry Schroder Wagg	12½%
Citibank NA	12½%	Standard Chartered	‖12½%
Citibank Savings	¶12½%	TCB	12½%
Clydesdale Bank	12½%	Trustee Savings Bank	12½%
C. E. Coates & Co. Ltd.	13½%	United Bank of Kuwait	12½%
Comm. Bk. N. East	13 %	United Mizrahi Bank	12½%
Consolidated Credits	12½%	Westpac Banking Corp.	13 %
Co-operative Bank	*12½%	Whiteaway Laidlaw	13½%
The Cyprus Popular Bk.	12½%	Williams & Glyn's	12½%
Dunbar & Co. Ltd.	12½%	Wintrust Secs. Ltd.	12½%
Duncan Lawrie	12½%	Yorkshire Bank	12½%
E. T. Trust	13 %		
Exeter Trust Ltd.	13½%		
First Nat. Fin. Corp.	13½%		
First Nat. Secs. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptns.	13½%		
Grindlays Bank	‡12½%		
■ Guinness Mahon	12½%		
■ Hambros Bank	12½%		
Heritable & Gen. Trust	12½%		

■ Members of the Accepting Houses Committee.
* 7 day deposits 9½%. 1 month 10¼%. Top Tier—£2,500+ at 3 months notice 12½%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 9½% gross.
‖ 21-day deposits over £1,000 10½%.
¶ Mortgage base rate.
** See Provincial Trust Ltd.
§ Demand deposits 9½%.

Closing prices, May 10

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23½	18	AAR	.48	2.8	12	221	17⅛	17	17⅛	+¼
10¼	9⅜	AGS			12	58	14½	13⅞	14½	+⅝
21½	13¾	AMF	.50	2.2	57	3838	20⅛	19⅞	20	
43¼	24¼	AMR			10	9189	u44⅞	43	44½	+1¾
21⅜	18⅝	AMR pf2.10		11.		213	20⅞	20¾	20¾	−⅛
25⅞	22⅞	ANR pf2.67		11.		370	24¾	24¾	24¾	+¼
23	10	ANR pf2.12		10.		2	20¼	20¼	20¼	−¼
14¼	7¾	APL			43	129	10	9⅝	10	+⅛
35¼	44⅝	ASA		23.8		472	52½	51¾	52⅛	+⅝
27	14⅛	AVX	.32	1.9	15	583	17½	16¾	16¾	−¾
24⅞	16	AZP	2.72	12.	7	2683	23⅝	23	23⅝	+¼
54	36¾	AbtLab 1.40		2.0	15	2148	53¼	52½	53⅛	+¾
26⅞	17	AccoWd .44		2.9	17	285	21¾	21½	21⅜	−⅛
21⅛	12½	AcmeC .40		2.8		116	14½	14⅛	14¼	+¼
10½	6	AcmeE .32b		4.1	10	51	6¼	d	7⅛	7⅞
17⅝	18	AdaEx 1.92e		11.		125	16⅞	16⅝	16⅞	
20	11⅛	AdmMl .32		2.0	8	4	15¾	15⅝	15¾	+¼
19⅛	6⅝	AdvSys .53t		5.9	17	434	18⅛	19¼	19¾	+½
41⅛	25⅛	AMD			13	8888	30¼	29½	30¼	+⅞
12¾	6⅞	Advest .12		1.2		192	9¾	9	9⅝	+⅝
14⅝	8¾	Aeroflex			11	143	12¼	11¾	12¼	+½
45	27¼	AetnLf 2.64		5.6	38	3884	u45¼	44½	45	+¼
58¾	52⅜	AetL pf5.83e		11.		69	55½	55¼	55½	
35	16¾	Ahmns 1.20		3.5	14	1112	34⅝	34	34⅝	+1¼
4⅛	2½	Aileen			22	75	3	2⅞	2⅞	
51	38⅝	AirPrd 1.56		2.3	12	1511	u52	51¼	51⅞	+1⅛
24⅜	15	AirbFrt .60		2.0	12	399	21	13½	21	+1⅞

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Continued on Page 27

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, May 10

[illegible]

Continued on Page 28

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 26

[illegible]

		WPenPpf4.50		11.		z280	40	40	40	
		WstPtP2.20		6.2	10	69	35⅞	35⅛	35½	−½
		WstctT g1.04			28	5	11⅝	11⅝	11⅝	
		WnAirL			78	1100	6¼	6⅛	6¼	+⅛
		WAir wt				112	1¾	1⅝	1⅝	
		WAir pf 2		11.		17	18⅝	10⅛	19⅛	
		WAir pf2.14		11.		84	19¾	18¾	18¾	−¼
		WCNA				1058	6¾	6⅝	9½	−⅛
		WCNA pf7.25		15.		1	48	49	49	−½

[illegible]

62½	40½	Wolw pf2 20		3.5		7	u63¾	63	63¾	+2¼
4⅞	2⅜	WrldAr				34	4	3⅞	4	
64½	46	Wrigly 1.00a		2.6	11	96	62	61½	62	+⅞
8⅛	3⅛	Wurltzr				9	4¼	4¼	4¼	−⅛
10	10¾	WyleLb .32		2.9	8	270	11⅛	11	11	
23⅝	17	Wynns .60		3.3	7	51	18¼	18¼	18¼	+¼

X Y Z

47½	33¼	Xerox	0	6.1	20	7112	u48⅞	47¼	48⅞	+2½
52½	45¼	Xerox pf5.45		10		7	52½	52¼	52⅜	
20	24	ZaleCp 1.32		4.7	9	156	28¼	27⅝	28	+⅛
24⅜	12⅞	Zapata .84		6.3	26	441	13⅝	13¼	13⅜	−¼
62¾	32	Zayre .40b		.6	16	7270	u64⅛	62¼	63¾	+1⅞
30⅜	18⅛	ZenithE			9	1253	20½	20⅛	20⅜	−⅝
21⅞	14⅜	Zero s .32		1.9	77	129	18⅝	17¼	17⅞	−⅞
31⅜	21⅞	Zurnin 1.32		4.4	11	169	30	29⅞	29⅞	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market, closing prices, May 10

Continued on Page 29

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 27

CANADA

TORONTO

Closing prices May 10

MONTREAL

Closing prices May 10

AUSTRIA

1985 High	Low	May 10	Price %
336	225	Credit'stalt Pfd	357
665	530	Goesser	666
900	400	Interunfall	900
685	222	Laenderbank	326
580	333	Perlmooser	565
210	163	Steyer-Daimler	210
620	245	Veitscher Mag	612

BELGIUM/LUXEMBOURG

1985 High	Low	May 10	Price Frs.
1,950	1,750	B.B.L.	1,910
6,200	3,460	Banq. Int. A. Lux	6,000
3,940	4,380	Bekaert B.	5,400
2,700	2,350	Ciment CBR	2,380
287	221	Cockerill	228
6,200	5,530	Delhaize	8,200
3,140	6,770	EBES	2,810
8,700	2,000	Electrobel	2,340
2,220	1,900	Fabrique Nat	1,906
3,460	2,855	GB Inno BM	5,045
2,205	1,910	GBL (Brux)	1,910
4,330	3,873	Gevaert	3,760
6,290	5,320	Hoboken	6,490
2,305	9,026	Intercom	2,233
8,650	7,820	Kredietbank	6,200

FRANCE

GERMANY

ITALY

SWEDEN

NORWAY

NETHERLANDS

DENMARK

AUSTRALIA

1985 High	Low	May 10	Price Aust. $
6.96	4.63	ANZ Group	4.2
1.10	1.05	Alliance Oil Dev.	1.06
2.11	1.73	Ampol Pet.	1.82
1.05	0.73	Ashton	0.92
2.28	1.88	Aust. Cons. Ind	2.24
6.4	2.35	Aust Guarantee	2.45
5.0	2.42	Aust. Nat. Inds	2.85
2.86	2.2	APM	2.85
7.2	4.7	Bell Group	7.14
7.5	4.25	Bell Res.	7.1
1.5	1.18	Bond Corp Hldgs	1.62
6.48	3.15	Boral	3.2
2.49	1.51	Bougainville	2.27
4.05	3.48	Brambles Ind	3.22
2.65	2.05	Bridge Oil	2.48
8.48	4.34	B.H. Prop.	6.46xa
7.4	4.28	CRA	5.4
3.16	6.68	CSR	2.67
3.3	4.22	Castlemaine Tys	6.8
4.19	3.70	Coles (G.J.)	6.72
2.88	2.00	Comalco "A"	23.6
0.45	0.40	Consolidated Pet	0.48
1.2	1.25	Costain Aust.	1.8
6.35	1.86	Dunlop Olympic	2.23
3.85	8.02	Elders IXL	3.08
1.80	1.30	Energy Res.	1.48
6.3	2.09	Gen. Prop. Trust	2.29
3.28	6.2	Hardie (James)	3.29
3.40	2.12	Hartogen Energy	3.36
4.65	5.4	Herald W'y Times	4.63
2.26	1.86	ICI Aust.	2.06
0.39	0.22	Jimberlana F.P.	0.39
0.19	0.1	Kia Ora Gold	0.15
6.78	5.1	Lend Lease	6.66
3.43	9.63	MIM	3.32
3.36	2.62	Mayne Nickless	8.3

HONG KONG

1985 High	Low	May 10	Price H.K.$
25.3	21.4	Bank East Asia	25.4
17.7	10.5	Cheung Kong	17.3
15.2	12.5	China Light	15.5
1.6	0.85	Evergo	0.88
50	43.5	Hang Seng Bank	50
5.65	5.55	HK Electric	8.25
6.10	5.13	HK Kowloon Wh.	5.8
3.65	5.22	HK Land	5.25
8.5	7.35	HK Shanghai Bk.	8.35xa
88	49.73	HK Telephone	88
24.6	18.6	Hutchison Wpa.	24.3
12.5	2.05	Jardine Math	11.8
7.50	5.1	New World Dev.	7.3
2.75	2.17	Orient O'seas	2.2
3.40	2.32	O'seas Trust Bnk.	3.2
13	7.2	SHK Props	12.6
2.05	1.34	Shell Elect.	1.31
95.5	20.3	Swire Pac A.	24.3
6.8	5.1	TVB	6.6
7.40	3.21	Wheel'k Mard A.	7.3
1.15	1.11	Wheel'k Maritme	1.10
2.7	1.65	World Int. H'ldgs.	6.2

JAPAN

1985 High	Low	May 10	Price Yen
1,190	1,040	Ajinomoto	1,090
2,097	1,712	Alps Electric	1,790

SINGAPORE

SWITZERLAND

SPAIN

SOUTH AFRICA

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 28

Indices

NEW YORK

DOW JONES

	May 10	May 9	May 8	May 7	May 6	1985 High	1985 Low	Since Compil'n High	Since Compil'n Low
♦Industr'ls	1274.16	1260.27	1248.79	1252.78	1247.79	1289.86 (11/5)	1184.96 (4/1)	1299.86 (1/3/65)	41.22 (2/7/32)
H'me Bnds	75.75	75.46	75.55	75.40	75.19	75.75 (10/5)	72.27 (20/3)	—	—
Transport..	617.03	604.30	594.66	588.46	587.36	635.30 (1/5)	553.03 (4/1)	635.30 (1/5/85)	12.68 (8/7/32)
Utilities..	156.75	159.11	157.85	157.67	155.47	159.73 (10/5)	146.54 (4/1)	163.72 (20/4/09)	10.5 (28/4/42)
TradingVol 000's	140,26	110,880	101,270	100,188	85,940	—	—	—	—

♦Day's High 1282.46 (1265.57) low 1261.59 (1246.58)

	Apr. 26	Apr. 19	Apr. 12	year ago (approx)
Industrial div. yield %	4.79	4.82	4.82	4.72

STANDARD AND POORS

	May 10	May 9	May 8	May 7	May 6	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Indust'ls ...	203.95	201.45	200.06	200.44	199.63	205.15 (1/5)	182.24 (4/1)	205.15 (1/5/85)	3.62 (30/6/32)
Comp's'te	184.29	181.92	180.62	180.76	179.99	184.29 (10/5)	163.88 (4/1)	184.28 (10/5/85)	4.40 (1/6/32)

	May 1	Apr. 24	Apr. 17	Year ago (approx)
Industrial div. yield	3.93	3.84	3.85	3.95
Industrial P/E ratio	11.20	11.28	11.27	12.42
Long Gov. Bond yield	11.33	11.33	11.26	18.84

N.Y.S.E. ALL COMMON

May 10	May 9	May 8	May 7	1985 High	1985 Low
106.64	105.41	104.56	104.59	108.64 (10/5)	94.60 (4/1)

Rises and Falls

	May 10	May 9	May 8
Issues Traded...	1,980	1,992	1,979
Rises...	1,028	1,065	740
Falls...	384	475	757
Unchanged...	370	454	482
New Highs...	—	108	90
New Lows ...	—	11	21

TORONTO	May 10	May 9	May 8	May 7	1985 High	1985 Low
Metals & Minerals	1986.3	1970.8	1934.5	1932.8	2190.07 (13/2)	1896.0 (4/1)
Composite	2634.1	2615.6	2602.7	2615.4	2682.5 (26/3)	2348.8 (4/1)
MONTREAL Portfolio	129.70	128.75	127.85	128.85	132.77 (5/3)	117.00 (4/1)

	May 10	May 9	May 8	May 7	1985 High	1985 Low
AUSTRALIA						
All ord. (1/1/80)	894.7	889.8	889.6	876.2	063.6 (8/5)	715.3 (7/1)
Metals & Mnls. (1/1/80)	584.2	578.4	569.8	556.9	578.2 (24/4)	362.0 (7/1)
AUSTRIA						
Credit Aktien (2/1/62)	85.38	84.88	82.71	80.10	85.38 (10/5)	58.21 (24/1)
BELGIUM						
Brussels SE (1/1/80)	2220.49	2218.56	2186.17	2200.58	2319.05 (13/3)	2090.7 (18/1)
DENMARK						
Copenhagen SE (3/1/83)	186.64	187.92	186.20	184.73	192.70 (24/4)	158.44 (0/1)
FRANCE						
CAC General (31/12/82)	218.20	217.40	(c)	217.5	220.8 (12/4)	180.9 (3/1)
Ind Tendance (20/12/84)	119.70	119.10	(c)	118.80	120.8 (12/4)	106.1 (3/1)
GERMANY						
FAZ Aktien (31/12/58)	426.34	425.86	424.75	420.65	426.47 (26/4)	382.58 (8/1)
Commerzbank (1/12/53)	1244.56	1,244.5	1240.40	1241.6	1244.6 (9/5)	1111.0 (3/1)
HONG KONG						
Hang Seng Bank (31/7/64)	1613.3	1,618.05	1621.45	1593.26	1621.45 (0/5)	1220.74 (2/1)
ITALY						
Banca Comm Ital. (1972)	299.02	286.63	281.28	280.65	299.02 (10/5)	228.56 (2/1)
JAPAN**						
Nikkei-Dow (16/5/49)	12527.3	12474.5	12521.2	12506.8	12868.3 (3/4)	11545.2 (5/1)
Tokyo SE New (4/1/68)	979.49	981.97	985.67	879.99	1006.96 (22/3)	916.93 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	209.1	208.7	211.8	212.0	213.0 (8/5)	185.9 (5/1)
ANP-CBS Indust (1970)	172.5	172.1	173.1	174.2	173.2 (7/5)	147.8 (8/1)
NORWAY						
Oslo SE (4/1/85)	332.50	331.40	330.26	325.80	345.6 (6/2)	288.18 (2/1)
SINGAPORE						
Straits Times (1966)	798.12	791.78	790.53	785.31	852.65 (7/3)	764.30 (18/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	—	1007.2	1031.7	1019.8	1140.0 (15/4)	856.1 (11/2)
JSE Indust (28/9/78)	—	908.5	855.8	891.2	306.5 (10/5)	787.1 (7/3)
SPAIN						
Madrid SE (28/12/84)	111.11	111.56	110.48	109.82	117.41 (4/2)	101.49 (2/1)
SWEDEN						
Jacobson & P (1/1/58)	1450.33	2,455.41	1449.50	1446.97	1498.08 (11/2)	1351.60 (2/1)
SWITZERLAND						
SwissBank Cpn. (31/12/58)	432.3	429.7	428.4	427.1	432.3 (10/5)	306.7 (3/1)
WORLD						
Capital Intl. (1/1/70)	—	209.8	202.7	202.5	204.6 (15/4)	184.6 (4/1)

** Saturday May 4: Japan Nikkei-Dow 12,545.25. TSE 979.86.

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—264.3, and Australia. All Ordinary and Metals—500, NYSE All Common—50: Standard and Poors—10: and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding Bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed, u Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
ATT	2,377,600	22¼	+ ¼	Nat Semi	1,323,900	11⅞	− ¼
Jack Eckerd	2,230,000	22⅞	− 3⅜	Ford Motor	1,251,300	43	+ ⅛
IBM	2,227,300	130¼	+ 2¼	Fannie Mae	1,227,300	17⅞	+ ⅜
Pan Am	1,525,700	5⅝	+ ¼	J. P. Morgan	1,206,500	51	+ 1¼
TWA	1,370,700	17⅞	+ ⅜	Sears Roebuck	1,204,400	34⅛	+ ⅜

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

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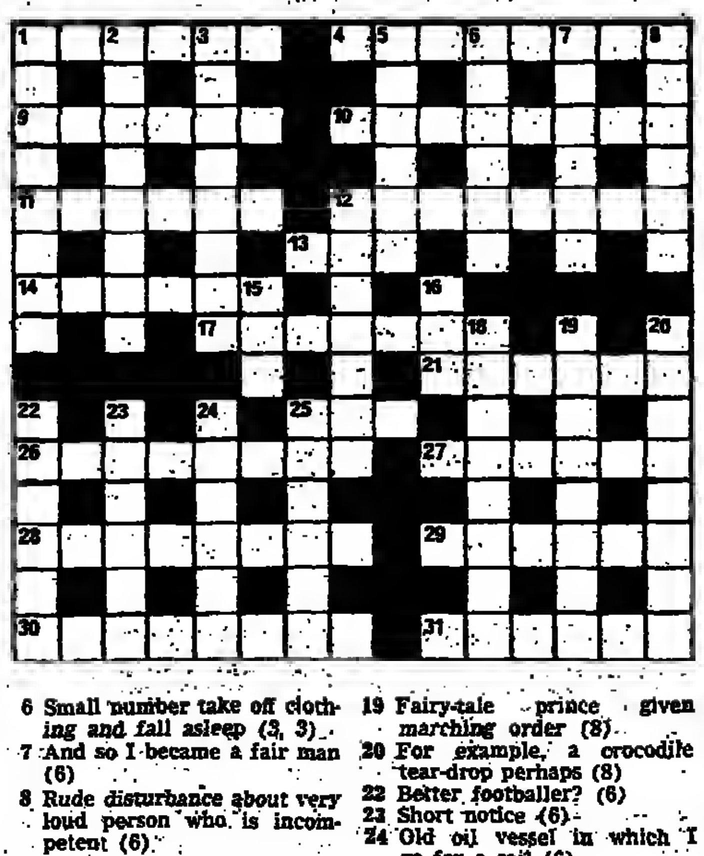
INSURANCES

[illegible]

F.T. CROSSWORD PUZZLE No. 5,716



ACROSS

1 Court card? (6)
4 Denied that profits help (8)
9 Mid-channel? (6)
10 Don't contact workers in their free time (5, 3)
11 Fights are things dogs enjoy (6)
12 The rest of the players (4-4)
13 Early leaver (3)
14 Female is the first murder victim (6)
17 Richard's about to make a mistake with a boring set-up (7)
21 It limits the movement of stock (6)
25 Jelly fish? (3)
26 Meat for sale at a bargain price? (8)
27 Released and spread around (6)
28 See 18 down
29 Vote is for Russian government (6)
30 Arrested, perhaps, and re-covered tyres (8)
31 A negro made an ass of (6)

DOWN

1 As worn by a parachutist? (4, 4)
2 Team with genuine line-up of stars (8)
3 Sally in deep trouble when turned out (8)
5 Mount framing an artist in his element (6)
6 Small number take off clothing and fall asleep (3, 3)
7 And so I became a fair man (6)
8 Rude disturbance about very loud person who is incompetent (6)
12 The rain disturbed the lock-keeper (4-3)
15 Member of a cricket side (3)
16 A small court of law (3)
18 and 28 across: Buy a paper-weight and save money? (4, 4, 3, 5)
19 Fairy-tale prince given marching order (8)
20 For example, a crocodile tear-drop perhaps (8)
22 Better footballer? (6)
23 Short notice (6)
24 Old oil vessel in which I go for a sail (6)
25 With a new clue I'd find the mathematician (6)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Money Market Trust 63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fnd	12.63	9.44	14.04	6mth
7-day Fnd	12.76	9.54	14.19	6mth
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	12.15	9.08	13.39	6-Mth
7-day Fund	12.55	9.38	13.84	6-Mth
Dollar	6.09	—	—	6-Mth
Money Mngt. Acct.	12.00	—	—	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	12.50	9.34	14.03	Qtr
Mth. Int. Chq.	12.375	9.25	14.05	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Cheque Acc	12.05	9.00	11.40	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	12.25	9.00	13.49	Qtr
Britannia Grp of Investment Companies 29 Finsbury Circus, EC2M 5QL. 01-588 2777				
Cater Allen	12.00	8.97	13.54	Mth
Charterhouse Japhet plc 1 Paternoster Row, EC4M 7DH. 01-248 3999				
Sterling	12.375	9.25	11.79	Mth
U.S. Dollar	8.00	5.98	8.30	Mth
German Marks	5.0	4.73	5.12	Mth
Swiss francs	3.00	1.50	2.02	Mth
Japanese Yen	5.00	3.74	5.12	Mth
Co-operative Bank Cheque & Save 78-80 Cornhill EC3 01-626 6543 Ex 464				
£500-£2,500	11.0	8.22	12.11	Qtr
£2,500 +	13.00	9.72	14.40	Qtr
Dartington & Co Ltd Dartington, Totnes, Devon TQ9 6JE. 0803 862271				
Money Mkt Acc	12.75	9.53	14.37	Qtr
Henderson/Bank of Scotland 38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	12.05	9.00	13.40	Mth
Lombard North Central PLC 17 Bruton St, W1A 3DH. 01-409 3434				
14-Day Notice	12.75	9.53	11.61	—
M & G/Kleinwort Benson 91-99 New London Rd, Chelmsford. 0245 51651				
H.I.C.A.	12.26	9.16	11.66	Daily
Midland Bank plc PO Box 2, Sheffield. 0742 20999 Ext 8738				
High Int Chq	12.04	9.00	13.49	Qtr
Provincial Trust (formerly Chouletons) 30 Ashley Rd, Altrincham, Cheshire, WA1 2DW 061-928 9011				
Cheque Acc	13.00	9.72	14.00	Mth
Save & Prosper/Robert Fleming 28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	11.85	8.86	13.23	Daily
Tyndall & Co 29-33 Princess Victoria St, Bristol. 0272 732241				
Demand Acc	12.35	9.24	13.05	Qtr
Money Acc	12.375	9.25	13.87	Qtr
J. Henry Schroder Wagg & Co Ltd Enterprise House, Portsmouth 0705 827733				
Special Acc	12.0	8.97	11.59	Mth
Over £10,000	12.25	9.16	13.90	Mth

NOTES—Gross rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ⊕ Yield column shows annualised rates of NAV increase.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
15Jan	15Jul	Treas 11¼pc 1985	[illegible]	[illegible]	[illegible]	12.72
3 Mar	3 Sep	Treas 8¼pcCnv '85	[illegible]	[illegible]	[illegible]	12.20
22 May	22 Nov	Exch. 12¼pc 1985	[illegible]	[illegible]	[illegible]	12.32
25 Aug	25 Feb	Exch. 11¼pc '86	[illegible]	[illegible]	[illegible]	11.90
11Oct	11Apr	Treas. 10pcCnv 1986	[illegible]	[illegible]	[illegible]	11.96
19 Nov	19 May	Treas 3pc 1986	[illegible]	[illegible]	[illegible]	9.12
19 Nov	19 May	Exch. 10½pc Cv '86	[illegible]	[illegible]	[illegible]	11.85
12Dec	12Jun	Treas 12pc 1986	100	[illegible]	[illegible]	11.88
18 Jan	10 Jul	Treas 8½pc 1984-86‡‡	[illegible]	[illegible]	[illegible]	11.67
29 Apr	29 Oct	Exch. 14pc 1986	[illegible]	[illegible]	[illegible]	11.83
21 May	21 Nov	Exch. 2½pc 1986	91	[illegible]	[illegible]	8.79
22Jul	22Jan	Exch. 13¼pc 1987	102	17.12	[illegible]	11.83
10 Aug	10 Feb	Treas 10¼pcCv '87	97	[illegible]	[illegible]	11.70
24Aug	24Feb	Exch 2½pc 1987	[illegible]	[illegible]	2.78	9.14
6Oct	6Apr	Exch. 10½pc 1987	98	[illegible]	10.71	11.68
1 Nov	1 May	Funding 6½pc '85-87‡‡	[illegible]	[illegible]	7.05	11.02
12Dec	12Jun	Treas. 10pc 1987	[illegible]	[illegible]	10.33	11.81
14Jan	14Jly	Treas 3pc 1987	[illegible]	[illegible]	3.42	9.51
3May	3Nov	Treas. 12pc 1987	[illegible]	27.3	11.93	11.66
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	[illegible]	[illegible]	8.39	11.08
10Nov	10May	Exch 10½pc '88	97	[illegible]	10.78	11.58
14Dec	14Jun	Treas 9¾pc Cv '88	95	11	10.23	11.62
1Jan	1Jul	Transport 3pc '78-88	[illegible]	[illegible]	3.60	9.28
25 Apr	25 Oct	Treas. 9½pc '88	[illegible]	93	10.13	11.74
22 Aug	22 Feb	Treas 11½pc 1989	99	[illegible]	11.54	11.58
18 Oct	18 Apr	Treas 9½pc Cnv. '89	93	[illegible]	[illegible]	11.70
15Nov	15May	Treas 3pc 1989	79	—	[illegible]	9.39
14Dec	14Jun	Treas 10½pc 1989	[illegible]	11.11	10	11.72
1Feb	1Aug	Exch.10pc 1989	[illegible]	12	[illegible]	11.74

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

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FOOD, GROCERIES, ETC

HOTELS AND CATERERS

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INDUSTRIALS (Miscel.)

هكذا من الأصل

INDUSTRIALS—Continued

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

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Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

INSURANCES

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PROPERTY—Continued

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SHIPPING

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TOBACCOS

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TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

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OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—Continued

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
		Centenaial Min'ls.	147	26.3	—	—	—
—		Colby Res Corp.	75	—	—	—	—
Aug.	Feb.	Cons. March, 10c	458	14.1	†Q100c	1.4	10.8
—		Ennex Int. Ir10p	34	—	—	—	—
—		Greenwich Res, Inc.	87	—	—	—	—
Sept	Feb.	Hampton Areas 10p	195	24.12	3.75	2.1	2.6
—		Highwood Res.	175	—	—	—	—
May	Aug.	Homestake Mining $1	£19⅝	31.10	Q20c	—	0.8
—		McFinley Red Lake	265	—	—	—	—
—		Musto Explorations	262	—	—	—	—
—		New Sabina Res C$1	47	—	—	—	—
October		Northgate C$1	325	9.77	—	—	—
Jan.	July	RTZ	637	29.10	20.0	2.7	4.6
Jan	July	Do 9½pcLn '95-2000	£137	29.10	Q9½%	14.8	0.1
—		Tara Expln $1	£13½	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- 1 Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¶ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend, cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Albany Inv 20p	100	....	Arnott	178	.....
Craig & Rose £1	£9	....	CPI Hldgs	50	.....
Finlay Pkg. 5p	61	....	Carroll Inds.	118½	.....
Higsons Brew	155	−2	Dublin Gas	54	.....
Holt (Jos) 25p	756	+6	Hall (R. & H.)	55	.....
IoM Stm. £1	90	−3	Helton Hldgs.	14	.....
IRISH			Irish Ropes	43	.....
Exch. 12% 1985	£100	....	Jacob (W.& R.)	72xd	.....
Nat. 9¾% 84/89	£90	+⅛	Unidare	83	.....
Fin. 13% 97/02	£98¼	....			

OPTIONS—3-month call rates

Industrials	p				
Allied-Lyons	16	GKN	27	Turner Newall	20
BAT	32	Hanson Tst.	17½	Unilever	85
BOC Grp	25	Hawker Sidd	38	Vickers	19
BSR	16	Hse of Fraser	30	**Property**	
BTR	52	ICI	60	Brit Land	12
Babcock	14	'Imps'	18	Cap Counties	18
Barclays	48	Jaguar	28	Land Secs	25
Beecham	32	Ladbroke	24	MEPC	28
Blue Circle	45	Legal & Gen	50	Peachey	22
Boots	15	Lex Service	28	Samuel Props	14
Bowaters	20	Lloyds Bank	45	**Oils**	
Brit Aerospace	33	Lucas Inds.	25	Brist. Oil & Min	4
Brit. Telecom	11	Marks & Spcr	11	Brit Petroleum	42
Brown (J.)	3	Midland Bk	38	Burmah Oil	18
Burton Ord	39	NEI	6	Charterhall	6
Cadburys	14	Nat West Bk	60	Premier	5
Comm Union	19	P & O Dfd.	36	Shell	60
Courtaulds	12½	Plessey	27	Tricentrol	18
Debenhams	17½	Polly Peck	26	Ultramar	19
Distillers	28	Racal Elect	18	**Mines**	
Dunlop	6	RHM	11		
FNFC	8½	Rank Org Ord	32	Charter Cons	18
Gen Accident	45	Reed Intnl	50	Cons Gold	44
Gen Electric	17	Sears	8	Lonrho	14
Glaxo	85	TI	28	Rio T Zinc	56
Grand Met	25	Tesco	28		
GUS 'A'	60	Thorn EMI	35		
Guardian	60	Trust Houses	13		

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 18

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

CURRENCIES, MONEY and CAPITAL MARKETS

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	91.49	91.55	91.44	91.40
Sept	90.84	90.90	90.79	90.72
Dec	90.35	90.37	90.33	90.24
March	89.87	90.01	89.97	89.86
June	89.66	89.66	89.64	89.55

Est volume 8,323 (3,308)
Previous day's open int 18,722 (18,456)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
June	87.43	87.45	87.38	87.40
Sept	88.11	88.13	88.03	88.03
Dec	88.60	88.60	88.50	88.46
March	88.91	88.90	88.86	88.88
June	88.97	—	—	88.93

Est volume 1,313 (1,448)
Previous day's open int 7,259 (7,190)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
June	105-01	105-04	104-15	104-21
Sept	108-07	108-02	107-29	107-28
Dec	108-13	—	—	108-02
March	108-81	—	—	107-22

Est volume 2,186 (2,781)
Previous day's open int 4,283 (3,323)
Basis quote (clean cash price of 13¾% Treasury 2003 less equivalent price of near futures contract) —10 to par (32nds).

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.2330	1.2335	1.2280	1.2290
Sept	1.2215	—	—	1.2176
Dec	1.2140	—	—	1.2100

Est volume 155 (418)
Previous day's open int 9,584 (8,822)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
June	0.3216	0.3216	5.3203	0.3207
Sept	0.3240	0.3231	0.3231	0.3231

Est volume 78 (273)
Previous day's open int 245 (237)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
June	0.3820	0.3826	0.3806	0.3817
Sept	0.3858	—	—	0.3853

Est volume 44 (nil)
Previous day's open int 156 (147)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	0.3969	—	—	0.3980
Sept	0.3962	—	—	0.4003

Est volume nil (n8)
Previous day's open int 150 (150)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
June	130.75	130 65	130.25	129.65
Sept	131.35	131.00	131.00	130.45

Est volume 154 (161)
Previous day's open int 1,292 (1,235)

U.S. TREASURY BONDS 0% $100,000 32nds of 100%

	Close	High	Low	Prev
June	72-25	72-28	72-01	81-23
Sept	71-23	71-25	71-05	70-21

Est volume 5,007 (1,512)
Previous day's open int 2,869 (2,463)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	72-30	73-01	72-14	72-02
Sept	71-28	71-30	71-12	71-00
Dec	70-30	71-01	70-13	70-01
March	70-03	70-05	69-19	69-06
June	69-11	69-13	68-27	68-14
Sept	68-22	68-23	68-08	67-24
Dec	68-03	68-03	67-18	67-04
March	67-17	—	—	66-18
June	67-00	67-00	66-24	66-01
Sept	—	—	—	—
Dec	66-04	—	—	65-05

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
June	92.33	92.36	92.31	92.30
Sept	91.88	91.90	91.84	91.82
Dec	91.51	91.54	91.47	91.44
March	91.19	91.23	91.18	91.13
June	90.94	90.96	90.93	90.88
Sept	90.75	90.76	90.74	90.69
Dec	90.56	90.56	90.54	90.50
March	90.38	90.38	—	90.32

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
June	91.80	91.94	91.80	91.79
Sept	91.16	91.32	91.15	91.11
Dec	90.70	90.76	90.68	90.63
March	90.29	90.37	90.30	90.26

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
June	91.45	91.56	91.44	91.42
Sept	90.70	90.89	90.76	90.73
Dec	90.13	90.42	90.30	90.25
March	89.92	90.01	89.90	89.88
June	89.61	89.70	89.62	89.58
Sept	89.35	89.43	89.36	89.33
Dec	89.12	89.20	89.19	89.10
March	88.92	89.01	88.93	88.91

STERLING (IMM) $s per £

	Close	High	Low	Prev
June	1.2345	1.2350	1.2235	1.2285
Sept	1.2225	1.2240	1.2120	1.2175
Dec	1.2145	1.2160	1.2030	1.2100
March	—	—	—	1.2285
June	1.2085	—	—	1.2065

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	70-31	71-08	70-26	70-23
Sept	70-07	70-15	70-02	69-30
Dec	69-19	69-26	69-10	69-10
March	—	—	—	—
June	68-18	—	—	69-09
Sept	68-05	—	—	67-28

WEEKLY CHANGE IN WORLD INTEREST RATES

	May 10	change
LONDON		
Base rates	12½-12¾	Unch'd
7 day interbank	12⅝	—1/16
3mth interbank	12⅞	+1/32
Treasury Bill Tender	11.9925	+0.0259
Band 1 Bills	12⅜	Unch'd
Band 2 Bills	12¼	Unch'd
Band 3 Bills	12⅛	Unch'd
Band 4 Bills	12	Unch'd
3 Mth. Treasury Bills	12	Unch'd
1 Mth. Bank Bills	12 1/16	+1/32
3 Mth. Bank Bills	12 1/32	+1/32
TOKYO		
One month Bills	6.28125	Unch'd
Three month Bills	6.34375	Unch'd
BRUSSELS		
One month	8⅛	—⅛
Three month	9⅜	—⅛
AMSTERDAM		
One month	6⅞	—1/16
Three month	6⅞	—1/16

	May 10	change
NEW YORK		
Prime rates	10½	Unch'd
Federal funds	8 1/16	—1/16
3 Mth. Treasury Bills	7.75	+0.08
6 Mth. Treasury Bills	7.87	+0.02
3 Mth. C D	8.15	—0.10
FRANKFURT		
Lombard	6.0	Unch'd
One Mth. Interbank	6.75	+0.55
Three month	6.825	—0.075
PARIS		
Intervention Rate	10¼	Unch'd
One Mth. Interbank	10⅛	—1/16
Three month	10 1/16	—1/16
MILAN		
One month	14½	—¼
Three month	15 1/16	Unch'd
DUBLIN		
One month	12¾	Unch'd
Three month	12¾	Unch'd

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

FOREIGN EXCHANGES

Dollar optimism fades

BY COLIN MILLHAM

Last week began with dealers still optimistic about the prospects for the dollar, after the currency's sharp rise since the beginning of the new month. This mood was short-lived however, and was replaced with a nervous uncertainty, which will probably prevail until the mist clears about the U.S. economy and interest rates.

There were no major economic statistics for the market to get to grips with last week, and the Federal Reserve's injection of liquidity into the New York banking system, when Federal funds were under 8 per cent was technical, and not a signal of easier monetary policy.

This week's U.S. economic figures include retail sales tomorrow, industrial production Wednesday, and housing starts Thursday. These are April statistics, and will possibly give an indication of whether the economy is recovering from a disappointing growth rate in the first quarter.

Without such guidance last week the market pushed the dollar around like a ship without a rudder. Large selling orders out of the Far East were at times confused with central bank activity, and created some very nervous moments, but there was no *sign of intervention* by the Bundesbank or any other central bank.

Mr Preston Martin, vice-chairman of the Federal Reserve, was reported to have forecast second quarter growth of only 2.5 per cent. This was later denied, but whereas the dollar fell on the original report it did not recover on the *disclaimer*.

Tommsrow week is likely to be the most significant day for the market this month. The Federal Open Market Committee meets and spinions are divided about the likelihood of an easing of the Fed's monetary *stance*, and possibly a cut in the discount rate. On the same day another revision of first quarter gross nstional product will be published. The last revision suggested growth of only 1.3 pre cent, and *although* the present value of the dollar already discounts this, the market will await the new figure with interest.

STERLING INDEX

	May 10	Previous
8.30 am	77.9	77.8
9.00 am	78.0	77.3
10.00 am	77.9	77.5
11.00 am	78.0	77.8
Noon	77.9	77.8
1.00 pm	77.8	78.0
2.00 pm	77.8	78.0
3.00 pm	78.1	78.1
4.00 pm	78.1	77.9

£ IN NEW YORK

	May 10	prev. close
£ Spot	$1.2420-1.2440	$1.2178-1.2186
1 month	0.47-0.46pm	0.46-0.44pm
3 months	1.31-1.28pm	1.26-1.24pm
12 months	3.32-3.25pm	3.12-3.08pm

Forward premiums and discounts apply to the U.S. dollar

POUND SPOT—FORWARD AGAINST POUND

May 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.2185-1.2385	1.2335-1.2345	0.48-0.46c pm	4.52	1.31-1.26 pm	4.16
Canada	1.6975-1.7077	1.6980-1.7020	0.47-0.38c pm	3 90	1.23-1.09 pm	2.73
Nethlnd.	4.33½-4.35½	4.34-4.35	2¼-2c pm	5 70	6¾-6 pm	6.64
Belgium	77.44-77.70	77.55-77.65	27-22c pm	3.79	70-62 pm	6.36
Denmark	13.79½-13.91	13.79½-13.80½	4⅝-3⅞ore pm	2 53	11½-16 pm	3.06
Ireland	1.2295-1.2330	1.2295-1.2305	.15p pm-.01dis	—0.68	0.46-0.02 pm	0 76
W. Ger.	3.84½-3.86	3.84¾-3.85¾	2⅝-2¼pf pm	7 20	6⅝-6⅛ pm	6 88
Portugal	217¼-223½	216-223	90-405c dis	—13.47	310-1170ds	—13.42
Spain	216⅝-217¾	217-217½	15c pm-5 dis	—9.28	15-65 dis	—6.74
Italy	2448¼-2467½	2460¼-2461¼	2lire pm-1 dis	—0.24	1-6 dis	—6 57
Norway	11.07-11.13¼	11.07-11.08	¼ore pm-½ dis	—0.14	½-1½ dis	—3 27
France	11.71¾-11.78¾	11.73½-11.74½	2⅜-2⅛c pm	2.49	6⅞-6⅞ pm	2.37
Sweden	11.15½-11.20¾	11.16¾-11.17¾	1½-2ore dis	—1.76	5⅜-6⅞ dis	—2.15
Japan	310½-312½	311½-312½	1.76-1.64y pm	6.54	4.96-4.77 pm	6.24
Austria	27.02-27.20	27.07-27.14	15⅝-13¾gro pm	6.31	41½-38½ pm	5.79
Switz.	3.23¾-3.25½	3.24½-3.25½	2⅝-2⅛c pm	8.08	6⅝-6 pm	7.54

Six-month forward dollar 2.30-2.25c pm, 12-month 3-30-3.15c pm.

OTHER CURRENCIES

May 10	£	$		£ Note Rates
Argentina Peso	608.50-604.00	490.00 409.50	Austria	22.90-27.20
Australia Dollar	1.7820-1.7868†	1.4495-1.4516	Belgium	77.40-78.20
Brazil Cruzeiro	6,289-6,318	6,110-5,135	Denmark	13.75-13.89
Finland Markka	8.0156 8.0476	6.5030 6.5050	France	11.68-11.80
Greek Drachma	167.75-171.41	136.27-139.13	Germany	3.83-3.86
HongKong Dollar	9.6000 9.6200	7.7720-7.7770	Italy	2433-2470
Iran Rial	113.25*	94.10*	Japan	308-312
Kuwait Dinar (KD)	0.3745-0.3755†	[illegible]	Netherlands	4.32-4.36
Luxembourg Fr.	77.55-77.65	[illegible]	Norway	11.03-11.16
Malaysia Dollar	[illegible]	[illegible]	Portugal	[illegible]
New Zealand Dlr.	[illegible]	[illegible]	Spain	[illegible]
Saudi Arab. Riyal	[illegible]	[illegible]	Sweden	[illegible]
Singapore Dollar	[illegible]	[illegible]	Switzerland	[illegible]
Sth African Rand	[illegible]	[illegible]	United States	1.23¼-1.24¼
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	300-360

* Selling rate.

† Corrections (May 9): Australia—£ 1.7690-1.7850, Kuwait—£ 0.3740-0.3750, NZ—£ 2.7100-2.7400 and Singapore—£ 2.2160-2.2210.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May 10	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	45.0644	+0.36	+0.43	±1.5471
Danish Krone	8.14104	8.03620	—1.29	—1.22	±1.6419
German D-Mark	2.24184	2.23873	—0.14	—0.08	±1.0875
French Franc	6.87456	6.82685	—0.71	—0.65	±1.3669
Dutch Guilder	2.52595	2.52669	+0.03	+0.09	±1.5171
Irish Punt	0.72569	0.716053	—1.47	—1.41	±1.6673
Italian Lira	1403.49	1427.22	+1.69	+1.69	±4.0410

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.2340	1.2294	1.2252	1.2143	1.2048
D-Mark	3.8525	3.8293	3.7861	3.7289	3.6301
French Franc	11.7400	11.7155	11.6765	11.6257	11.5980
Swiss Franc	3.2500	3.2286	3.1867	3.1350	3.0388
Japanese Yen	312.0	310.3	307.14	302.60	295.74

BANK OF ENGLAND TREASURY BILL TENDER

	May 10	May 3
Bills on offer	£100m	£100m
Total of applications	£456.85m	£527.18m
Total allocated	£100m	£100m
Minimum accepted bid	£97.01	£97.005
Allotment at minimum level	46%	6%

	May 10	May 3
Top Accepted rate of discount	11.9929%	12.0129%
Average rate of discount	11.9926%	11.9667%
Average yield	12.38%	12.33%
Amount on offer at next tender	£100m	£100m

DOLLAR SPOT—FORWARD AGAINST DOLLAR

May 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.2185-1.2385	1.2335-1.2345	0.48-0.46c pm	4.52	1.31-1.26 pm	4.16
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 63.00-63.10.

CURRENCY MOVEMENTS

May 10	Bank of England Index	Morgan Guaranty Change %
Sterling	78.1	—11.5
U.S. dollar	146.3	+28.3
Canadian dollar	87.8	—7.1
Austrian schilling	111.4	+8.6
Belgian franc	89.1	—11.9
Danish Kroner	77.1	—6.6
Deutsche mark	121.5	+6.5
Swiss franc	138.5	+7.3
Guilder	111.8	+4.0
French franc	64.4	—15.0
Lira	46.3	—17.2
Yen	154.8	+11.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

May 10	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	[illegible]	[illegible]
U.S. $	8	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]
Austria Sch.	[illegible]	[illegible]	[illegible]
Belgian Fr.	[illegible]	[illegible]	[illegible]
Danish Kr.	[illegible]	[illegible]	[illegible]
D mark	[illegible]	[illegible]	[illegible]
Guilder	[illegible]	[illegible]	[illegible]
French Fr.	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]
Norwgn. Kr.	[illegible]	[illegible]	[illegible]
Spanish Pta.	[illegible]	[illegible]	[illegible]
Swedish Kr.	[illegible]	[illegible]	[illegible]
Swiss Fr.	[illegible]	[illegible]	[illegible]
Greek Dr'ch	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

*CS/SDR rate for May 9: 1.38032

EXCHANGE CROSS RATES

May 10	Pound Sterling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.234	3.865	312.0	11.74	3.250	4.345	2461.	1.700	77.50
U.S. Dollar	0.810	1.	3.119	252.6	9.510	2.630	3.518	1993.	1.376	62.80
Deutschemark	0.260	0.320	1.	80.99	3.047	0.844	1.128	638.8	0.441	20.14
Japanese Yen 1,000	3.205	3.955	12.35	1000.	37.63	10.42	13.93	7889.	5.449	248.7
French Franc 10	0.852	1.051	3.282	265.8	10.	2.768	3.701	2096.	1.448	66.15
Swiss Franc	0.308	0.380	1.185	96.00	3.612	1.	1.337	757.3	0.523	23.88
Dutch Guilder	0.230	0.284	0.887	71.81	2.702	0.748	1.	566.5	0.391	17.86
Italian Lira 1,000	0.406	0.501	1.566	126.8	4.770	1.321	1.765	1000.	0.691	31.53
Canadian Dollar	0.588	0.727	2.266	183.5	6.906	1.912	2.556	1448.	1.	45.63
Belgian Franc 100	1.289	1.590	4.965	402.1	15.16	4.188	5.599	3172.	2.191	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

May 9	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short-term	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 day's notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Asian $ (closing rates in Singapore): Short-term 8-8⅛ per cent; seven days 8⅛-8⅜ per cent; one month 8⅜-8⅝ per cent; three months 8 7/16-8 9/16 per cent; six months 8⅝-8¾ per cent; one year 9⅛-9¼ per cent. Long-term Eurodollars: two years 10¼-10½ per cent; three years 10½-11 per cent; four years 11-11¼ per cent; five years 11¼-11½ per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

MONEY MARKETS

A setback to lower rates

Last week's UK money supply figures had very little impact on interest rates in the London money market but had a considerable influence on sentiment. A rise of around 1 per cent was expected in M3 money supply and the published figure of 2½-3 per cent came as a major surprise, while the increase of £2.6bn in bank lending was about double most forecasts. Three-month interbank was offered at 12¾ per cent before the figures were announced, and rose to only 12 13/16 per cent immediately after. Even this small rise was shortlived and for the rest of the week three-month money was again offered at 12¾ per cent.

UK clearing banks base lending rate 12½-12¾ per cent since April 19

Several reasons were suggested for the sharp rise in bank lending, including companies taking advantage of the higher rate of investment allowances in the last financial year, by purchasing new capital equipment.

The financial markets were therefore prepared to accept that the rise in lending, and the increase in M3 at an annualised rate of 19 per cent in the latest three months, is an exaggeration of the true position, but some reassurance is now required if it is to be believed that the official target of 5 to 9 per cent will be met for the current financial year.

In spite of the disappointment at the figures there was little fear of any renewed upward pressure on interest rates, although the Bank of England has been so reluctant to allow a sharper fall in base rates.

Any further fall from the present base rate level of 12½-12¾ per cent has been put back, and the clearest sign of this was the flattening of the yield curve, with the very short end of the interbank market easing slightly, while rates for periods longer than three months rose.

Sentiment can change very rapidly and perhaps the next set of money supply and banking figures will paint a different picture but at the moment there seems little chance of lower base rates until well into the summer.

Meanwhile the mood of the market would certainly be helped by a cut in the U.S. Federal Reserve's discount rate.

MONEY RATES

May 10	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	5.60-5.60	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	5.75-5.8	[illegible]	[illegible]	[illegible]	5.96875	15-15⅛	6.65	12⅝-12⅞
Two months	5.70-5.85	[illegible]	[illegible]	[illegible]	6.28125	14⅝-14⅞	9-9¼	12¾-12⅞
Three months	5.75-5.90	[illegible]	[illegible]	[illegible]	6.34375	15-15⅛	9¼-9½	12⅝-12⅞
Six months	5.85-6.00	[illegible]	[illegible]	[illegible]	—	[illegible]	[illegible]	[illegible]
Lombard	6.0	—	—	—	—	—	—	—
Intervention	—	10¼	—	—	—	—	—	—

LONDON MONEY RATES

May 10 1985	Sterling Certificate of deposit	Interbank	Local Authority Deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days or	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Four years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Discount Houses Deposit and Bill Rates

ECGD Fixed Rate Export Finance IV: Average Rate of Interest period April 3 to May 7 (inclusive): 12.787 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 13¼ per cent from May 1, 1985. London and Scottish Clearing Bank Rates for lending 12½-12¾ per cent. Bank Deposit Rates for sums at seven days' notice 6.50-7.25 per cent (net). Treasury Bills: Average tender rates of discount 11.9926 per cent. Certificates of Tax Deposit (Series 6): Deposits £100,000 and over held under one month 12½ per cent; one-three months 12¼ per cent; three-six months 12¼ per cent; six-nine months 12⅛ per cent; nine-12 months 12 per cent. Under £100,000 11¾ per cent from May 3. Deposits held under Series 5 12 per cent. The rate for all deposits withdrawn for cash 9 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 10)

3 months U.S. dollars

bid 8 1/16	offer 8 3/16

6 months U.S. dollars

bid 8 9/16	offer 8 11/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (4 pm)

Prime rate	10½
Broker loan rate	9¾
Fed funds	8 1/16
Fed funds at intervention	8

Treasury Bills

One month	[illegible]
Two month	7.60
Three month	7.73
Six month	7.87
One year	8.27

Treasury Bonds

Two year	[illegible]
Three year	[illegible]
Four year	[illegible]
Five year	[illegible]
Seven year	[illegible]
10 year	[illegible]
30 year	[illegible]

FINANCIAL TIMES SURVEY

With a striking uniformity that points to a common cause, national banking industries are undergoing radical changes.

Bursting out of the traditional mould

PART TWO: PART ONE APPEARED LAST TUESDAY

By David Lascelles

Banking Correspondent

WHEN Mr John S. Reed, the youthful new chairman of Citicorp rose to address his shareholders for the first time last month, he studiously avoided referring to the vast organisation in which they all had a stake as a bank.

It was, he said, a "financial service institution."

Not, perhaps, the most elegant phrase he could have chosen. But anything less would have been surprising for a company that burst out of the traditional mould of a bank some time ago in its quest for new business, and today towers over every corner of the world financial markets.

Citicorp is a little exceptional, of course. But there is hardly a country these days where the question "what is a bank" has a simple answer. With a striking sameness that points to common causes, national banking industries are undergoing radical changes almost everywhere.

In places as different as the UK, Finland and Japan, financial markets are being opened up. In just about every country where the law allows it, banks are expanding into new businesses, like securities or insurance. And the last few countries outside the communist world that barred foreign banks, like Australia, Sweden and Norway, are letting them in.

Why this great upheaval? And where will it lead?

Public attitudes towards banks are clearly changing. Many of these developments are the result of conscious decisions by governments to deregulate banking markets.

Their motives vary. Some, like New Zealand, see their banks as cossetted institutions which need to be exposed to bracing competition. In others the pendulum has swung away from the view — widespread earlier this century — that banks were special and had to be protected by measures like interest rate ceilings (the U.S. and Austria, for example) and bans on non-bank competition.

But most of them recognise that new forces, like technology, are changing banks anyway, and that to stand in their way may only spell greater trouble. Thanks to machines and telephones, banks no longer need branches to reach their customers, and if they cannot transact a particular piece of business in one country, they can simply switch it to another.

In fact, technology may be the single most potent force for change. It is the universal ingredient, and the means through which banking has become the first market on which the sun never sets.

Behind change also lies the restless drive of the banks themselves — or et least of those who view regulation as a chafing constraint rather than e merciful relief from competition. In many countries, notably the U.S., banks want to be eble to beat non-banking rivals who are encroaching on their territory, and take the battle forward on to the enemy's ground.

Ironically, the U.S., the source of most of the technological innovation in banking and home of the most articulete proponents of deregulation and change, is probably the country where actual change is occurring most slowly. The ettitudes that threw np the strict post-Depression banking laws still prevail, and if anything appear to have hardened in the wake of the multiple hanking crises that have hit the country over the last year or two.

And if Australia is only now letting in foreign banks, it is worth recalling that there are still states in the U.S. — albeit remote ones — thst do not admit outside banks, even American ones.

The inability of U.S. banks to create a nationwide market highlights the kind of inefficiencies that other countries are trying to rid themselves of. Canadian banks can clear e cheque between Vancouver end Montreal in hours. The same transaction between San Francisco and New York can take days if not weeks.

The fragmentation of the U.S. market does, however, prevent U.S. banks achieving a size where collectively they would dominate the world markets, and that in many people's view, may not he a had thing.

Elsewhere, though, deregulation is ecquiring its own momentum. The spectacular changes on the London market — encouraged by e Tory Government which fevours self — rather than official regulation — has ettracted so much interest from foreign hanks that a country like Germany has had to start deregulating its own markets to compete.

One of the big questions is whether the deregulation of the Tokyo markets will unleash the Japanese financial institutions and set them on e world-conquering road like their counterparts in the steel, antomotive and consumer electronics industries. This prospect is already disturbing banks, particularly in Europe.

Is a trade war in financial services looming? Certainly the steady move towards global financial markets has turned the spotlight on barriers to trade in services (many of them have to do with access to communications, vitel to banks), end many bankers want them eired et the next Gatt (General Agreement on Tariffs and Trade) round, possibly next year. Already a lot of horse trading has been going on, particulerly between the UK and the U.S. on one side, and Jepan on the other over eccess to the Japanese markets, and reciprocal rights.

But the full implication of deregulation are still hard to grasp, if only becanse no one can he sure whet a typical financial institution will look like in the year 2000.

Flushed with new prospects created by the removal of barriers, bankers must now decide which of the avenues they want to go down, and how far. They will still be intermediaries between those with money and those who need it. But will they bridge the gap with loans, or securities or new products? And how should they price them?

At the same time they will increasingly become purveyors of ancillary financial services, where they will make their money from fees rather than interest margins. But what services should they provide that will not only make e profit hut creete opportunities for cross-selling or packaging? Might banks even hire out parts of the huge worldwide communications networks in which they have invested millions of dollars and go into the telecommunications business?

At what point does a bank stop trying to be all things to all men, and cultivate a specialist patch? Clearly the Citicorps of this world aim to become the supermarkets. But you do not have to go too far down the world league to find banks like Swiss Bank Corporation and Lloyds talking of the futility of striving to be an all-rounder.

While technology may be e boon, banks are also discovering that its rewards can be disappointing. Cash machines, information systems, electronic clearing and the other big advances of the last ten years may have stemmed the rising tide of paper, payrolls and premises costs. But many bankers doubt thet they have actually yielded the expected returns on the huge investment involved. The expensive cash management systems they offer their corporate customers are acknowledged to be loss leaders.

By their own admission, the UK clearing banks' ambitious cashless shopping plan (250,000 check-out terminals by the end of the decade at an as yet uncalculable cost) might not even reverse the growth of cheques or credit card slips in the foreseeeble future.

In a recent report detailing banks' disappointments with hi-tech, accountants Touche Ross said one of the greatest tasks facing bank executives is to lead technology, rather than be led by it.

Banking may have become an exciting business, but the challenges are enormous. The intriguing thing about Mr Reed's appointment to the world's biggest banking job et the age of 45 is that he will probably witness and strongly influence its greatest transformation by the time he reaches Citicorp's mandatory retirement age in 2005.

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● Statistical material for this survey was supplied by the Market Intelligence Department of the National Westminster Bank

The lid comes off a Pandora's box

Technology

ALAN CANE

THE world's bankers are beginning to learn what mischief they have let loose in opening the Pandora's Box of electronic financial services. While they realise their competitiveness depends on mastery of the new technology, they are weighing the advantages against what they now clearly perceive as disbenefits.

Late last year, for example, the Bank for International Settlements, the central bankers' bank, commissioned a study of the effect of electronic banking on monetary policy.

The bank's seniors argued that electronic clearing of interbank transactions would make monetary control harder. There would be a bigger turnover of money on a smaller liquidity base.

They said that the proliferation of home banking terminals, allowing the public to seek out electronically the best rate of return for their money would have implications for interest rate policy.

And they warned that powerful security and validation procedures would be legally necessary to ensure that transactions were confirmed and attempts at fraud foiled.

Security and integrity of electronic transactions, in particular, has become a hot topic for international bankers as the full significance of the consequences of a failure in any of the existing or proposed new systems sink home.

Security of transmission is, of course, a key feature of the major banking message networks like, for example, SWIFT, the Society for World Interbank Financial Transactions. The scale of the problem can be measured by the fact that Swift connects over 1,500 banks in 39 countries around the clock.

And in the UK there is little doubt that IBM's ability to provide an encryption technique based on its own "Data Encryption Standard (DES)" has a lot to do with the decision of the clearing banks to entrust the architecture of its Electronic Funds Transfer at the Point of Sale (EFTPOS) or cashless shopping to a combination of IBM and British Telecom, under the watchful eye of the computing services company CAP as project manager.

But the bankers' sudden awareness of how vulnerable their transmissions are to would-be fraudsters and the like has awakened a new interest in an area of banking technology hitherto seen chiefly as a French *curiosity*—the "smart" card.

This card, devised by onetime French journalist and inventor Roland Moreno, contains an entire computer-microprocessor, memory and input/output devices within the dimensions of an ordinary bank card.

The theory is that it functions as an *electronic* cheque book. Charged with so many units of account, it is used in a special terminal on retailer's counters.

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Each time it is used to make a purchase, the total sum stored in the card is decremented by the value of the purchase. A complete record of all transactions is held both in the memory of the card and the memory of the terminal.

At the end of the day, the contents of the terminal's memory are transmitted over the *telephone line* to the retailer's bank. The card holder can check the amount left "in" the card, and the transactions that have been carried out by inserting the card in a special "customer" terminal installed at the bank branch.

Such a system has a number of very secure features.

First, manufacturing a smart card is a very complicated process requiring high skills in microelectronic technology.

Conventional cards have magnetic stripes fused under a protective layer and bearing three tracks each of which can be read by a banking terminal such as a service till (automatic teller machine or ATM).

Despite the development of technique for writing identifying symbols on to the stripe using powerful magnetic methods, banks are continually anxious about counterfeiting. Recently, some financial organisations have begun to fix small holograms—laser created three-dimensional images—on the surface of their cards as an added safety measure. Holograms were believed to be too difficult to *create* or *copy* for counterfeiters.

Within a few months of their launch, hologram companies had produced machines which could copy the holograms with very reasonable precision.

But manufacturing a smart card requires an entirely different scale of manufacturing and investment.

Second, the card operates essentially "off-line"—in other words, there is no direct connection between the point-of-sale terminal and the central computer while the transaction is taking place. All the verification and authentication takes place in the point-of-sale terminal. No telephone line, vulnerable to tapping, is involved.

Further, the smart card contains its own complete record of all transactions for which it has been used.

Compare this with the system proposed by the *clearing* banks for the UK (which can well serve as a model for the EFTPOS systems most advanced countries are beginning to install).

The customer uses a conventional magnetic stripe card which is read by the POS terminal. Electronic messages in a complex code fly backwards and forwards between the terminal, the card-issues computer, the card holders' bank and the retailer's computer, agreeing that the card is valid and not stolen, that funds are available, that the price is right and, *eventually*, that payment has been successfully made.

Now the French are moving to the *carte mixte* or mixed card, combining both computer and magnetic stripe in the same card.

M Louis-Noel Joly, Directeur Central for the Societe Generale, told a Financial Times conference last year: "French banks conducted five experiments with electronic money in 1983. Cards with magnetic stripes were tested off-line in Aix and on-line in Saint-Etienne.

"Experiments with smart cards using three different types of chip were conducted in Blois, Caen and Lyon. These experiments have shown that "mixed" technology, combining a magnetic stripe and a chip, is the most suitable solution."

The U.S. banks are taking smart card technology very seriously as are the plastic card companies. Visa International, Carte Bleue and Bank of America have launched a major international study to assess the merits of the chip card.

The rival international card organisation, Mastercard, has been in discussions with Casio of Japan about the possibility of using the smart card system it has developed.

The plastic card, smart or not, is the key to the future in retail banking.

It is the key to a whole raft of services which could be provided automatically—and it also opens the door to the banks' chief would-be competitors, the building societies, thrift organisations, securities houses and retailers.

An automatic service till, after all, can dispense cash, take deposits, move money from one account to another, display account details and pay bills—all without human intervention.

It is already clear that people will willingly deal with a service till rather than a human teller. *If technology* can be used to make the operation of such machines even simpler, there is no reason why they should not become branch substitutes.

Already some companies are experimenting with paying their workers through service tills.

NCR, one of the leeders in the *development of ATMs*, has brought out a model incorporating e video disc player.

It can be used both to show the customer visually bow to operate the machine—but also as a powerful marketing tool. It is possible, for example, to show the customer bow to make an investment through filmed sequences—with the additional bonus that actual examples can be calculated using figures supplied by the customer. Such a machina could effectively replace the insurance salesman, for example.

Diebold, the U.S. market leader in eutomated teller machines, is rapidly moving out into a wide range of point-of-sale *situations*, starting with petrol stations.

In the UK, the building societies are grouping together to share ATMs; Halifax has gone out on its own. Abbey Netional is part of the *Link* consortium, the Leeds Permanent has taken a leading role in the establishment of EFT.

From the bank branch in the street or office, it is only a short step to the bank branch in the home via a boma compnter or e modified viewdata television set.

Most banks are waiting to see the results of a number of experiments in home banking now being condncted round the globe—Citibank and Chase Manhattan in the U.S., for example, the German banks and in the UK, Nottingham Building Society and the Bank of Scotland.

Taking the principla to its logical conclusion, Citibank is experimenting with a tiny terminal that can be carried in the pocket and plugged into a telephone to give the individual instant access to his bank account.

Wholesale banking is going through similar convulsions as the banks compete in the development of what is known as the treasurer's workstation—basically a personal computer which gives the corporate treasurer access to his accounts world-wide, makes it possible for him to move money from one account to another and to make payments.

At first, all these workstations could do was deliver reports. Now the rece is to add all tha bells and whistles that customers feel they need to help them in their business.

Mr Michael Gallagher, vice-president at Chase Manhattan responsible for electronic banking, said et the launch recently of new goodies for the Chase Global Microstation: "The real significance is not the number of modules but the flexibility in delivering financial services that Chase can offer."

Perbaps most significantly, the workstation can receive SWIFT "940" statements, messages sent over the SWIFT network and passing details of customer's account from one bank to another and poll passing—software which allows uses of the station to accept electronic banking transmissions directly from other banks.

The world's banks are locked into electronics irrevocably. But the bankers ere wondering in their plush dining rooms, if everything is not moving too fast, too soon—if the tail is not wagging the dog.

Automated banking area at the Basingstoke branch of National Westminster Bank

Battle for business will centre on man in the street

MANY bankers agree that the big battles of the future will be fought for the business not of multinational companies or entire countries, but of the man in the street.

Retail banking, long the unfashionable, costly end of the business now takes up more and more of bankers' time and resources as they fight off predators and try to conquer new territories.

In March nearly 1,000 of them packed into the *Montreux* conference centre for the annual convention of EFMA, the banking marketing association, to view the latest gadgetry and swap hope and fears.

"Why is the retail customer so important? Because I suggest to you that he is the foundation of banking," said Mr Matthew Barrett, group executive in charge of domestic banking at Bank of Montreal in a keynote speech. "It is the strength and stability of our retail base that allows us to be major players in corporate and international banking."

Although the situation differs from one country to another, there is a *surprising* degree of similarity in retail banking markets around the world today. The common threads are:

● The encroachment on banking territory of non-banks eager to tap large and often badly served deposit markets. These are usually thrift-type institutions like building societies and savings banks. But increasingly the threat is from new quarters like retail stores: Sears Roebuck and Marks and Spencer who are moving into the personal finance and *credit* card business. This has forced banks to retaliate by offering better service, higher interest rates and new products. In the UK, banks have even extended their trading bours to hold their place in the high street market.

● The impact of new technology: cash machines, "smart cards," home banking all offer banks new ways of selling products and communicating with their customers. (One Belgian-made machine at the EFMA meeting automatically swapped *sterling, dollar and DM notes* into the equivalent in Belgian francs.) But the balance of cost and reward as far as the banks are concerned is still hard to discern because it is all so new, and many bankers have proved to be wary innovators. "Are they just wizard solutions looking for e problem?" asked one banker about some new electronic hardware.

● In many countries, the abolition of decades-old interest rate ceilings on deposits and loans has caused massive upheavals in banking markets. This has forced up bank costs with frequently damaging consequences. But at the same time, banks have been able to price realistically and expand the range of products they offer their retail customers.

● The blurring of demarcation lines in the financial services market through deregulation or sheer force of competition has permitted banks to move into new types of business, like insurance, stockbroking and real estate. But in practice banks are proving quite selective about entering new markets, and few heve either the resources or the will to become financial supermarkets.

Retail banking does not appeal to everyone, of course. Big U.S. institutions like J. P. Morgan and Bankers Trust have conspicuously avoided it—and done very well by concentrating on bulk business where the margins may be slimmer, but the costs and complications smaller too.

But by contrast, aggressive banks like Citicorp (whose new chairman, John S. Reed, was specifically chosen for his skills in the retail market) see the combination of new technology and market-blurring providing them with a historic opportunity to reach a huge new clientele.

Whether the policy of trying to be all financial things to all men is the right one is still a subject of great debate. Certainly the idea of the "financial supermarket" seems to be losing some of its appeal as bankers get to grips with the costs and problems of providing an all-round service.

Increasingly, they talk of the need to segment markets carefully, to heed profitability and have a clear idea of one's strengths. The mixed success of banks offering cash management accounts combining banking and investment services has also prompted a certain caution.

Cross-selling—pushing insurance through bank branches, for example—is also easier said than done, particularly when it involves bank staff who are not used to it.

But new business and profitability are not the sole attractions of retail banking. A major consideration remains the development and retention of a large retail deposit base. Not only does this, on the whole, *provide* a bank with cheaper funds than the money market. It also tends to be less volatile, and reduces e bank's vulnerability to sudden swings of mood in the market.

Retail Banking

DAVID LASCELLES

Continental Illinois's troubles might well have been smaller if local bank laws had allowed it to expand its retail business. An awareness of these dangers clearly lies behind both Morgan's and Bankers Trust's efforts to rank among the best capitalised U.S. banks.

Apart from the spur of competition, the retail market does offer the most obvious opportunities for banks to exploit new technology by replacing costly branch networks and staff with uncomplaining machinery, and hopefully cutting their costs. Cash dispensers are now standard equipment. The next improvement in delivery systems could be home banking through one's TV set, though pioneering moves like Chemical Bank's Pronto in New York and the Nottingham Building Society's Homelink in the UK have had a sluggish response which suggests they may be ahead of their time.

The credit card should also be the key to e much wider range of services.

Whether the magnetic stripe or the chip card emerges as the triumphant technology, the little squara of plastic is capable of triggering everything from the international cash dispenser networks now being developed by organisations like Visa, MasterCard and Eurocheque, to the cashless shopping systems planned in countries like the UK and France, and routine services like personal loans.

Doubtless prophesies of the demise of the bank branch and the spread of home banking terminals will one day come true, and bankers have to keep that in mind when they shape their strategies. Their more immediate *preoccupation, though,* is to provide an ettractive service at a profit in a promising but highly competitive market.

Joint ventures still prove useful

Consortium Banking

MICHAEL BLANDEN

THE CONSORTIUM or joint venture epproach to international banking bas reached *maturity* in *London*, where *it* has provided an important means for banks to develop experience. Nevertheless, it is evident that the concept is still proving useful to a number of banks which are still feeling their way on the international scene. Elsewhere in the world, particularly the middle and Far East, the joint venture *approach is still being* ectively developed.

The reasons are cleer. For banks with relatively little international experience, e partnership with other banks provides a method of spreading the risk and of building up a body of expertise. The need for such experience was particularly strong in London in the early days of the development of the Eurocurrency markets, and even very large banks found it useful to adopt tbe consortium approacb. Moreover, it can be *belpful* when moving into e new market to bave a partnership with an institution which already has experience there.

The beyday of the growth of the consortium approach in the City was during the 1970s as the new markets developed. A total of some 16 consortium banks which are still extant in that form were set up during that period. In more recent years, bowever, the pettern has changed.

The big banks, and some of the smaller institutions as well, have perceived that they have outgrown the need for joint ventures and have the capacity now to develop their own individual international banking activities without sharing the risk (and the profit) with others.

The consequence has been that a number of banks which *were hitherto involved in* joint ventures have struck out on their own. At the same time, a number of former consortium operations have been bought out by one or other of their shareholders as e base for their international business.

They have included some of the largest in the market: Orion, which once brought together some very large banks including National Westminster of Britain and Chase Manhattan of the U.S., was bought out by The Royal Bank of Canada. *Midland and International Banks*, the oldest (it was set up in 1964) went to Standard Chartered.

Other recent moves have included; Nordic Bank being bought by Den norske Creditbank, with the *other* shareholders *setting up their own* operations in London; International Energy Bank went to Société Financière Européenne (itself a consortium based in Paris); London Interstate was bought out *by* tha Danish Sparekassen SDS; Bank of Tokyo took effective control of Bank of Tokyo International (National Bank of Detroit was formerly a partner; and in the one instance where a joint venture has been wound up, the shareholders *in* Banque Française de Crédit Internationale (Banque Internationale pour *l'Afrique Occidentale and Crédit* Commercial de France) decided to go their separate ways.

Yet these changes are an indication of the increased sophistication of the players in the international banking markets rather than a general sign that the joint venture approach has outworn its usefulness. Quite a few of the older-established consortia continne to thrive, notably those which have a specific regional emphasis such as European Brazilian, where even major banks find it *helpful* to be *in* partnership with others and with banks from that region. As more of the specialised or regional banks from a variety of countries develop international aspirations they are finding it valuable to put a toe in the *water through joint* ventures.

The Scandinavians, *in* particular, seem to find this route attractive. Recent arrivals in London have included the joint London representative office for six Scandinavian regionals and FennoScandia, a joint venture between Skopbank of Finland and SwedBank of Sweden. ItaB Group was set up by a group of Italian institutions, *Istituto* Mobiliare Italiano, Banca Popolare di Milano, Cassa di Risparmio di Torino and Credito Romagnolo. The Jordan Finance Consortium arrived on the scene last year, backed by the Jordan Government and a group of Jordanian financial institutions.

In its listing of foreign banks in *London last* November, The Banker identified a total of 27 consortium banks and joint ventures; they provided a foothold for 67 banks which had no other form of representation in London as well as a number which have their own operations. Sir John B. Hall, who has recently taken over as chairman of the Association of British Consortium Banks, sees a continuing role for them.

Mr Robin Leigh-Pemberton, Governor of the Bank of England. He has warned that there will be accidents during the City revolution

Roaring towards "Big Bang"

UK Reform

DAVID LASCELLES

AT A TIME when many financial centres round the world are undergoing big changes, London must, for the moment at least, be witnessing some of the most dramatic.

The so-called City revolution, now about 18 months old, has effectively become a cauldron in which banks, stockbrokers, jobbers and a variety of other financial institutions have been tossed and stirred to emerge remoulded into all-round financial conglomerates.

Quite what their future will be is still a matter of considerable speculation since the "Big Bang" marking the start of the new era of liberalised markets is not until late next year.

The standard view is that the revolution represents a much-needed shake-out of London's over-protected markets, particularly the Stock Exchange, and an opportunity to create strong, modern financial institutions able to take on the best in the world. The sceptics see it as a costly takeover binge which is just as likely to cause pain and losses.

Although the Thatcher Government is a strong supporter of these changes and is taking a close interest, the revolution is not a consciously managed restructuring of the City or even a "deregulation" in the U.S. legal sense.

If anything, it happened almost by accident after the Stock Exchange was threatened two years ago with an action for restrictive practices and agreed to abolish its fixed commission structure and widen its membership. This opened the way for non-Stock Exchange groups to get into the securities business, but has since led to even greater changes, including the reorganisation of the UK Government securities market.

Banks were quickest to seize the new opportunities. Over the past 12 months British and foreign banks (mainly from North America and a few countries in Europe) have snapped up virtually all the Stock Exchange's two dozen largest member firms.

Some, like Barclays, have bought both a stockbroker and a jobber. Mercury Securities, the parent of the S. G. Warburg merchant bank, went even further and bought two brokers and a jobber.

Citicorp, the large U.S. bank which was quick to spot a chance to get into a business from which it was barred by U.S. bank law in its home market, bought two stockbrokers and a discount house (a market maker in short-term money instruments).

Some banks, like National Westminster, opted for modest alliances, and others like Lloyds bought nothing at all, preferring to build up their own securities business internally, partly because they feel the money others are spending on big alliances is excessive. Only one of the large stockbrokers, Cazenove, has resisted takeover, believing that independence will become a rare and prized virtue.

As these strategies suggest, the City has different ideas about the correct formula for success. Most people agree that banks must get into the securities business, partly to expand the range of financial services they can offer, but also because they detect a growing shift in the marketplace away from traditional bank lending towards securities finance.

The securities markets are also fast becoming worldwide in extent, so that any institution with global ambitions must be able to deal in London, one of the world's three major financial centres.

In practice, though, things are not that simple. Banks now face the difficult task of welding together bankers, brokers and jobbers into working entities (some of which will employ thousands of people), and the City rumour mill is doing overtime reporting strife, defections and even abandonment of proposed alliances.

Everything from salary scales, computer systems and even holiday entitlements has to be sorted out. Barclays spent several months simply choosing a name for its new group.

The Bank of England has been encouraging these changes because it wants to reform the markets and see strong UK-based financial institutions competing on the world stage. But it has also used the revolution to launch reforms of the gilt-edged market along U.S. lines.

Instead of the present system of brokers and jobbers, there will be designated primary dealers in government stock who will have a dealing relationship with the Bank in return for undertaking to make two-way markets.

These dealers will be separately capitalised subsidiaries of the new securities groups, and the Bank is now sifting through a list of applicants. The gilts market is likely to become one of the early battlegrounds of the revolution because so many groups want to get established there for both financial and prestige reasons. Some groups are preparing to bear losses for a year or two while the competition settles down, but others, like Barclays expect to make money from the word go.

One of the effects of the revolution has been to weaken many of the unspoken and typically British rules that were supposed to protect users of the financial markets from the unscrupulous and fraudulent. The government has been reluctant to set up a policing agency, like the U.S. Securities and Exchange Commission, and has opted instead for a system of self-regulation by the City through two boards representing practitioners and users of the markets.

Whether these will be strong enough to prevent abuses in the new conglomerates which are riddled with potential conflicts of interest remains to be seen. But the system is a challenge to the City to prove that it can behave itself or risk sterner controls later on.

The Stock Exchange has also put out proposals to control conflicts of interest by requiring securities groups to declare both the capacity in which they are acting (broker, jobber, fund manager, etc) and their interest in a deal. Some people have already denounced the proposals as unworkable.

The key question, though, of whether the new groups will be able to work smoothly and profitably is one that no one can yet answer. The people putting them together, of course, glow with optimism. But Mr Robin Leigh-Pemberton, the Governor of the Bank of England, has warned that "there will be accidents," and it may be several years before the revolution can be judged a success.

Set to make a marked impact

Japanese Reform

ROBERT COTTRELL

THE LIBERALISATION and internationalisation of Japanese banking and finance now underway may have a long-term impact on international finance in the current decade comparable with that of the evolution of the U.S. dollar Euromarket in the 1960s.

Japan's bankers and bureaucrats are tearing up the thick rulebooks which left the nation's financial sector in the 1970s not much changed from tha 1920s. Segregation at home is being replaced by competition. Japan's currency, the yen, is flooding abroad, strengthening the financial clout of Japanese banks already active in London and New York.

The importance of Japan's banking internationalisation is not simply that its banks can operate more freely abroad, but that they can do so at a time when capital outflows are making Japan the world's fastest-growing financier nation.

The U.S. has retreated to the role of international debtor, and is assuming liabilities at a rate which threaten to make it the world's biggest borrower within a few years. Japan's domestic savings surplus and foreign trade earnings, meanwhile, funded a US$50bn outflow of long-term capital in 1984. Salomon Brothers, the U.S. investment bank, thinks the figure will be higher still in 1985.

Japan can no longer contain its own affluence. Tha internationalisation of its banking system is in part a recognition of that fact.

Japan's financial internationalisation and liberalisation owes a double debt to the U.S. It was U.S. Government pressure which led Japan to accelerata the pace of deregulation during the past year, after the publication in May 1984 of the Japan Ministry of Finance/U.S. Department of the Treasury Working Group on yen/dollar exchange rate issues. It was the high interest rates offered by the U.S. Government on bond issues to finance its deficit through 1984 which proved the main magnet for Japan's capital outflow.

The U.S. pressure exerted through the yen/dollar working party arose because President Reagan's finance officials apparently believed that deregulation of Japan finance would create more and higher-yielding yen assets available to international investors, thus strengthening the yen and reducing Japan's international competitiveness in merchandise trade.

To the extent that this might have been true in the short term, any yen inflows have been more than offset by the capital outflows into high-yielding U.S. bonds, and the yen has remained weak.

Japan's recent deregulatory measures have, on paper at least, been spectacular. In April 1984, the Ministry of Finance abolished nonprudential limits on overseas yen lending from Japan. From the same date, it authorised speculative foreign exchange transactions by Japanese residents, and eased restrictions on issues of Euroyen bonds by Japanese residents—though in fact, no such issues occurred until a year later, when MoF also waived withholding tax requirements.

The Euroyen bond market was opened to foreign issuers from December 1 1984. On June 1 1984, short-term Euroyen bank loans to Japanese borrowers were officially authorised, to be joined on April 1 this year by officially-sanctioned medium- and long-term Euroyen lending to non-Japanese borrowers.

The sum of these liberalisations is a virtually unfettered potential market in Euroyen bonds and bank loans. The only "no-go" category is medium- and long-term Euroyen lending to Japanese borrowers, which the Ministry of Finance fears would put unsustainable pressure on Japan's domestic long-term prime rate, a crucial factor in the country's intricate structure of officially-managed exchange rates.

Long-term lending is the province of tha "long-term credit banks," which unlike city banks are allowed to raise long-term funds through issues of debentures. Discretionary management of trust funds is the province of specialist "trust banks." Japan has seven — though a "grandfather" clause allows Daiwa Bank, a city bank, to share this field.

Licences are due to be issued in June permitting eight foreign institutions to start trust banking. Most bankers believe the field will be opened up to city banks within the next five years.

Other important specialist institutions are the Norin Chukin, a federation of rural co-operatives; and the postal savings bank, which, with some U.S.$350bn of deposits, is the world's biggest deposit-taker.

The postal savings bank offers two advantages to small savers: its interest rates are slightly higher than those of the banks; and it operates no effective deterrent against tax evasion by depositors.

In theory, each Japanese taxpayer can *maintain* up *to* Y3m in a postal savings account before attracting tax on interest payments. In practice, individuals can maintain multiple accounts, illicitly increasing the exemption.

It will take time for tha Euroyen market to grow in size and its participants to grow in skill and judgment. Tha first long-term Euroyen loan attempted after April 1 was boycotted by banks which said the terms offered to the borrower were too fine.

Liberalisation last December of Euroyen certificate of deposit issues produced an initial flurry of issues which London bankers say were made more for publicity than because of underlying need. Similarly, an opening flurry of December bond issues saw borrowers promptly swapping the proceeds into other currencies, and the market relapsed into inactivity.

International use of the yen must grow from a small base. At September last year, the yen accounted for less than 2 per cent of the world Eurocurrency market, according to Bank for International Settlements figures. The yen is little used in trade finance: Japan bills only 40 per cent of its exports, and 3 per cent of its imports, in its own currency.

The yen is more common in Asia, however, where Japan dominates the region's trade. Just over half its trade with Asia-Pacific economies is yen-denominated. The potential for an Asian "yen area" is one of the justifications given by Japanese finance officials for what could yet prove the most radical of Japan's deregulatory measures—establishment of an offshore banking market in Tokyo itself, now at the feasibility-study stage.

The Ministry of Finance likes the idea of an offshore market in Tokyo, specialising in yen transactions. It believes such a market would save Japanese banks the trouble and expense of maintaining large staff in London to deal with Euroyen business.

It also sees a Tokyo market as an opportunity for Japan's many small banks, which cannot afford overseas offices, to participate in international yen lending.

Restrictions come under bombardment

U.S. Reform

PAUL TAYLOR

HALF A century of Federal restrictions on what products and services U.S. commercial banks can provide—and where they can operate—are teetering on the brink of collapse.

A process of steady erosion has already broken down many of the existing barriers which divide commercial banking from the securities industry and other financial service providers in the U.S. Now bankers, regulators, state the federal legislators appear to be lining up behind a wholesale and final assault on the remaining walls keeping banks in one state.

While the prospects for early congressional action on these issues remain uncertain, the pressure for such action is reaching a crescendo.

"Our federal banking laws are in desperate need of reform and we need to get on with that task promptly," said Mr Gerald Corrigan, the new president of the New York Federal Reserve Bank, in his first major public speech earlier this year.

"New legislation must incorporate contemporary definitions of banks and thrifts. It should also include a progressive extention of bank products," Mr Corrigan said, "as well as a measured federal response to intense pressures for regional and ultimately nationwide banking."

Mr Corrigan's comments, ecboed by other regulators, were not lost on his audience—The New York State Bankers Association whose members have been among the most aggressive in pushing for a "new wave" of bank deregulation.

Without such a move many bankers and regulators warn that the process of piecemeal deregulation "by legislative loophole" will accelerate making passage of a new "omnibus" banking bill moot.

As evidence, proponents of such a bill point to the aggressive moves by *Citicorp, Bankers* Trust, BankAmerica, Security Pacific and others into the insurance, commercial paper, discount brokerage and other businesses, coupled with a wave of interstate banking mergers facilitated by regional banking pacts or by the collapse of local savings institutions. These moves, they say, are the shape of things to come.

Citicorp recently staged what is perhaps the boldest attempt to challenge the existing restraints over bank powers through a legislative loophole. The New York banking giant filed with the Fed (Federal Reserve Board) to underwrite corporate bonds, commercial paper, mortgage-related securities and municipal revenue bonds.

The banking group cited an *obscure* section of the 1933 Glass-Steagall Act which it claimed allowed such activities provided they were undertaken by a subsidiary and the subsidiary does not make underwriting such securities its *principal business.*

Although Citicorp hit an initial roadblock when the FED objected to the scope of the proposals, the banking group came back with a revised and partially scaled-down proposal under which it has dropped the plan to underwrite and sell corporate debt and has offered lower limits on the volume of securities sales its subsidiary could undertake.

The latest Citicorp application is still under consideration. Like other challenges to existing restrictions over the activities of commercial banks, it faces the certain prospect of strenuous opposition from the securities industry.

The FED, which has itself urged the passage of legislation allowing limited underwriting activities by U.S. bank holding companies, has indicated that Congress must be the final arbitrator on the issue.

Such concerns may also explain the FED's delay in issuing new rules on the activities of U.S. banks overseas—and in particular on the level of securities underwriting permitted by U.S. banks' overseas subsidiaries. The existing restrictions are vigorously opposed by U.S. banks who fear they could blunt their efforts to enter liberalised markets such as those proposed in the UK.

U.S. regulators are still smarting from their experiences last year when the comptroller of the Currency and the FED were forced to issue preliminary approval for hundreds of "non-banks" — or limited service consumer banks — because of the lack of a congressional consensus to close another legislative loophole.

These limited service banks—which either refrain from making commercial loans or taking demand deposits from customers — are strongly opposed by the FED and Mr Paul Volcker, the FED chairman, who has argued that they not only bust the fundamental separation of banking and commerce, but also throw open the doors to virtually unrestricted *interstate* banking without adequate supervision.

Currently final approval for most of the more than 200 applications for these "non-banks" is held up by court action but the regulators cite the possibility of hundreds of these units springing up across the U.S. as a key reason why Congress must act soon—at least on this loophole and on the broader interstate banking issue.

The interstate banking debate, perhaps even more than the question of a further extension of U.S. bank powers, is the one most likely to galvanise Congress into action.

A series of key recent developments, coupled with the spread of "electronic" banking have already made interstate banking a reality in many parts of the country—circumventing federal restrictions contained in the 1927 McFadden Act and the 1956 Douglas amendment.

Among these developments are:

- Beginning in New England, over 20 states in the U.S. have now passed laws allowing entry by out-of-state banks, mostly through regional banking pacts.

Mr Volcker's testimony represented the first time that the nation's most powerful bank regulatory authority had set out in detail a blueprint for interstate deregulation. Among specific proposals, Mr Volcker urged that the regional pacts be used as a starting point for interstate banking but that after three years any state operating within a regional pact should allow full interstate banking to be permitted. Mr Volcker's proposals also included specific safeguards against excessive concentration and would preclude any mergers among the nation's 25 largest banking groups.

Even so, the FED blueprint could still face tough opposition from local bankers who still fear the power of the majors. Indeed, the industry's trade groups remain split on the issue.

Nevertheless, some form of interstate banking legislation, coupled perhaps with a closing of the non-bank loophole, appears more likely in the current Congressional environment than a further expansion on bank powers—a prospect which may have been further set back by the Ohio Savings Bank crisis, widespread problems among U.S. savings and loans and the "after-taste" of the federally sponsored bail-out of Continental Illinois last year.

Last year an attempt to pass an all-embracing banking bill collapsed when the Senate and the house committees approved sharply differing versions of new legislation. Now a new effort to reach a consensus is underway.

- Chase Manhattan and Chemical Bank, two of the major New York banking groups, have agreed to acquire troubled privately insured savings banks in Ohio. Chemical has agreed to acquire Home State Savings Bank of Cincinnati which failed in the wake of the collapse of ESM Government Securities, the Florida-based government bond dealer whose collapse earlier this year sent shock waves through the U.S. financial system.
- Citicorp, which had earlier acquired troubled thrifts in California, Illinois and Florida and already colects deposits in 12 states nationwide, won approval to set up 20 branches in Maryland over the next two years. The Maryland approval was part of a deal the New York banking group negotiated with the state's governor in return for which Citicorp agreed to set-up a credit card processing centre which will eventually generate about 1,000 new jobs.

Bankers, federal regulators and the courts, would prefer to see the barriers removed in a more orderly and controlled fashion. Signalling this Mr Volcker, in congressional testimony late last month urged Congress to pass sweeping legislation which would allow full interstate banking within three years.

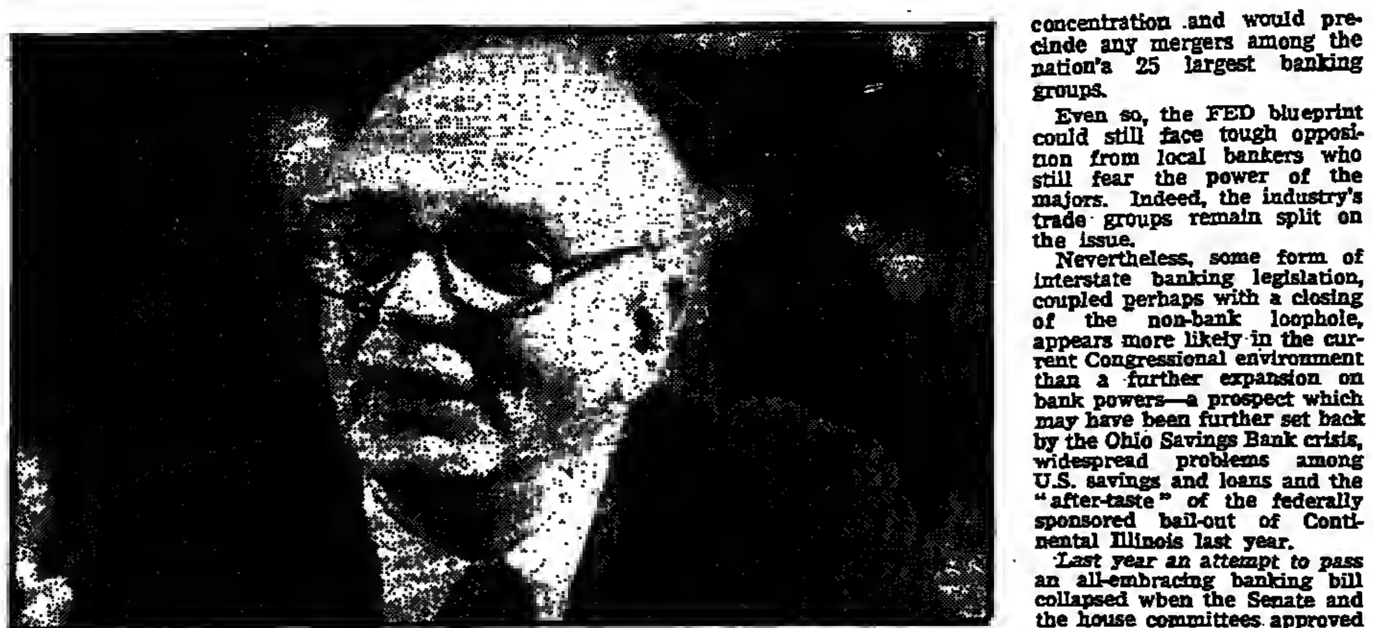
"The time has come for Congress, as part of more comprehensive banking legislation, to authorise some interstate banking," the Fed chairman said.

Whatever the outcome it appears increasingly certain that, with or without congressional approval, the landscape of the U.S. banking industry is changing.

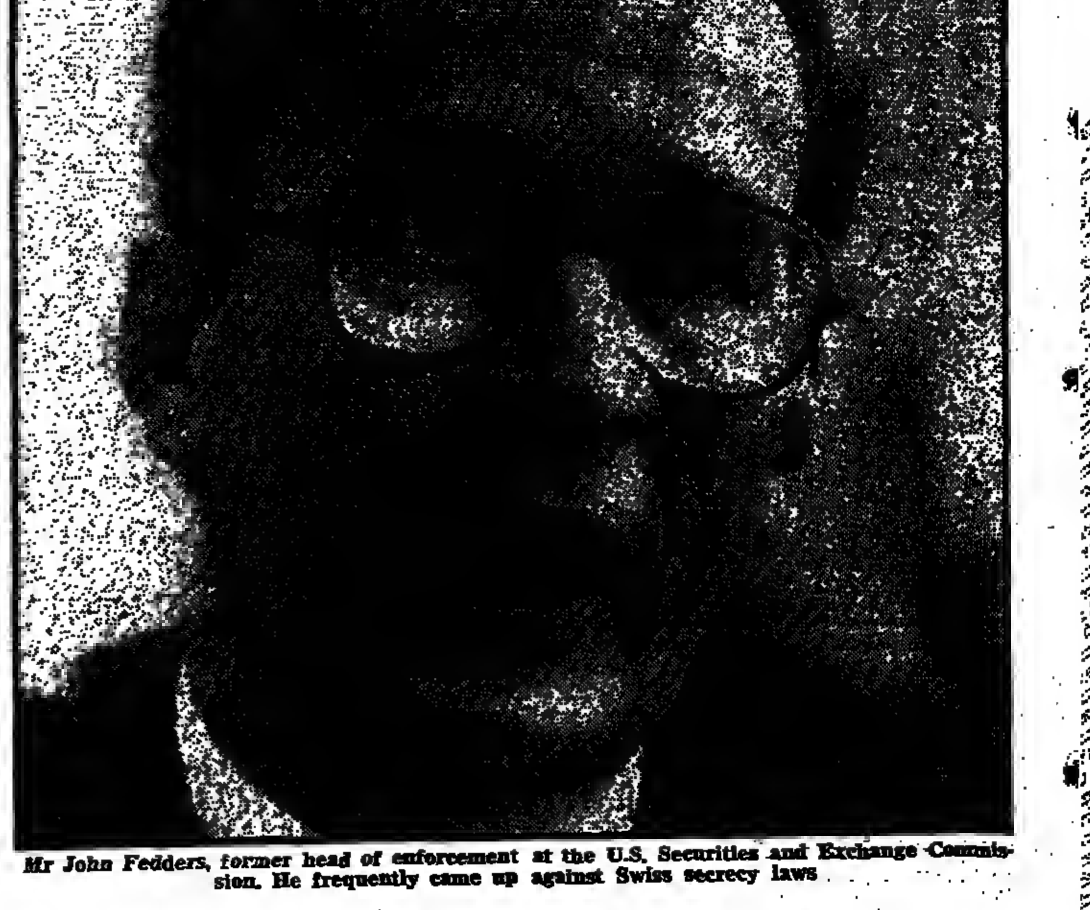
As Mr C. Todd Conover, Comptroller of the Currency, noted in recent congressional testimony, "The financial marketplace of the future is likely to be increasingly hetrogenous and competitive. As mandated distinctions between participants continue to erode, depository institutions will continue to expand their products and services, geographic barrier to competition will eventually disappear, and electronic data transmission will be even more important to the delivery of services."

He added, "Further geographic and product deregulation together with regulatory reorganisation would be the surest and quickest path to a competitive and vital financial system."

What remains to be seen is whether the industry as a whole responds to such a rallying call by burying its deep-seated divisions, and whether Congress will meet the challenge to help shape the future of U.S. commercial banking.



Mr Paul Volcker, chairman of the Federal Reserve System: strongly opposed to limited service banks



Mr John Fedders, former head of enforcement at the U.S. Securities and Exchange Commission. He frequently came up against Swiss secrecy laws

An expensive game for a limited number of players

Merchant and Investment Banking

BARRY RILEY

THERE IS an investment bankers' version of the old joke that everything desirable is either illegal, immoral or fattening.

Roughly the same applies to the most lucrative investment banking deals, but with some geographical variation, it is suggested. In New York it is illegal, in London it is immoral and in Zurich it is fattening!

The joke is supposed to highlight the three different approaches to investment banking that can be found in the developed world.

The Americans have a highly legalistic approach, with a clear separation of commercial and investment banking dating back some 50 years. Commercial banks are not permitted to underwrite issues of securities, a ban imposed by the Glass-Steagall Act which was a political response to the abuses of the era leading up to the Great Crash of 1929.

At the same time the U.S. Government created the Securities and Exchange Commission, a tough statutory body which regulates American securities markets.

In London, a more flexible and self-regulatory approach has been applied. In the Euromarkets banks have been able to operate almost without regulation.

In the domestic market, banks have been kept out of the Stock Exchange because of that body's restrictive rulebook—but this is now being changed and from late 1986 the banks will largely take over the stock market.

To prevent abuses there will be a heavy reliance on extension of existing self-regulatory principles, with a plethora of guidelines and codes of conduct. There is a lively debate about whether the proposed new watchdog body, the Securities and Investments Board, will be tough enough.

In Switzerland, and in a number of other Continental European countries, the system is different again. There is a tradition of universal banking, with banks operating right across the spectrum of financial activity.

Safeguards for customers tend to be poor and disclosure levels are inadequate by Anglo-American standards, but clients tend to place a high premium on confidentiality. Generally, the universal banking structure tends to restrict the development of securities markets.

Such widely different financial systems do not fit together especially easily. In fact, a prominent Swiss banker is reliably reported to have danced a jig around his office when he heard recently that Mr John Fedders had resigned as head of enforcement at the SEC.

Mr Fedders had frequently come up against Swiss secrecy laws, and the Americans are continually charging that Swiss bank clients (many of them actually Americans) are using Switzerland as a base from which to manipulate the American securities markets.

Meanwhile, several of the major American banks are taking advantage of more relaxed regulatory regimes, especially in the UK, to develop activities which they are not allowed to undertake in the U.S.

Thus a string of American commercial banks are taking stakes in the new-style London stock market, and Citicorp has managed to find a way through the Japanese regulatory obstacles and open up in Tokyo too (thanks to its purchase of Vickers da Costa, the London-based brokerage house, which had long had strong Far East connections.

All this leaves the world of international investment banking in a state of considerable turmoil, and the London merchant banks are at the eye of the storm.

They have a considerable domestic problem (or maybe it should be described as an opportunity) of reorientation. Because *British merchant banks* have been allowed to lend but have not been permitted to be members of the Stock Exchange position for U.S. investment (the reverse of the regulatory banks) they have developed as specialised banks aimed at the corporate market.

Banking has become less profitable in recent years, with intense competition for corporate business and the merchant banks are allocating large resources to their securities market build-up. Most have spent large sums on the goodwill of existing stock market firms, and will need to find substantial further amounts during the next year or two to finance new facilities and provide trading capital.

It is generally thought, for example, that it will require between £15m and £20m of new capital to become a significant market-maker in the new-style gilt-edged market which the Bank of England is preparing to create in the latter part of next year.

The question is, therefore, whether the London merchant banks will become much more like the U.S. investment banks in their structure. For some, the answer will certainly be yes, but the smaller merchant banks may well seek to continue to exist on the basis of carefully cultivated personal contacts and a variety of niche businesses in the financial markets.

For the bigger investment banks in London and New York the latest challenge is the global market place. Electronic markets in foreign exchange, bonds and international equities are being operated increasingly on a 24-hour basis, with time zone centres in Tokyo, London and New York.

But it is an expensive game in which there is room for only a restricted number of successful players.

A sector undergoing transformation

Correspondent Banking

MICHAEL BLANDEN

CORRESPONDING banking, one of the more traditional aspects of international banking business, is undergoing a transformation. A number of factors has contributed to the changing shape of the business, among them the development of new technology and the great improvement in information systems which it has brought, and the incursion into the international arena of the American banks with a different background and a different approach from the established European relationships.

Historically, the main reason for the existence of correspondent banking relationships lay in the need to finance trade. A British bank, for example, which needed to pay on behalf of a customer for imports from the U.S. or from the colonies had to have a link with a bank on the spot through which the money could be transferred. That aspect still plays a part but a much greater degree of sophistication is coming into the market as banks refine and rationalise their relationships.

The impact of the new technology has been twofold. It has greatly increased the speed of response in transferring money around the world, permitting the development of sophisticated packages for the management of funds which offer virtually instantaneous information on the state of an institution's book.

This in turn has contributed to a much greater awareness among major international customers of the banks of the importance of handling money as more than just a by-product of their main business. It has also provided the banks themselves with a more detailed knowledge of the results and profitability of the various services they provide — including the services they offer to other banks.

The differences of culture between Europe and North America have been important in recent years. For the British banks and those from other European countries which have an imperial past, experience in providing correspondent banking services on an international scale goes back a long way.

At the root of the relationship lies the concept of reciprocity. Banks worked for each other on the basis that the relationship met the needs of both sides. Until fairly recently, assessing whether the arrangement was actually producing a profit was not the first priority; and to the extent that profit came into the calculation, its main source would be the balances kept on a non-interest bearing basis with the correspondent.

The big U.S. money centre banks have a different background. They have one very considerable advantage in the international correspondent business; the CHIPS clearing system in New York, through which international dollar payments are cleared. Since the dollar is the major instrument in both *the Eurocurrency* markets and in international trade, this gives them a vital role in the system.

They also have considerable experience of correspondent banking relationships, though *in a rather different* context from that of the Europeans; the diversity of the American banking system, with its very large number of small banks, makes correspondent banking an essential element in its internal transactions.

The main spur, however to the incursion of the U.S. banks into active promotion of international correspondent banking was the availability of new cash management products. For a period, the business proved very attractive and profitable as a result of the large balances kept by correspondents in New York.

That changed in the early 1980s, *though.* High interest rates and the availability of better information on cash flows prompted banks generally to look more carefully at the idle balances they were keeping with other banks. That, together with the switch of CHIPS over to same-day settlement brought a sharp decline in the volume of balances being held in New York and made the correspondent banking business *at best only marginally* profitable.

The consequence has been a change of emphasis towards *specific pricing of individuals* corespondent banking products and charging fees for services provided, rather than relying on cash balances to provide a return. Up to a point, the same trend is evident among the European banks. It seems likely that they will continue to place rather more stress on the concept of reciprocity. Nevertheless, they too are looking much more carefully at the bottom line in assessing the value of correspondent relationships.

Three trends are evident. First, greater reliance on fees to produce a return on correspondent banking activity. Second, a process of rationalisation of relationships; this can be difficult where these may go back many years, but it is obvious that with the change in patterns of trade which has taken place in the past 50 years some old connections can scarcely be justified on traditional or current criteria.

Finally, the use of correspondent relationships to sell other banking products such investment banking or new issue advice; in this sense, correspondent banking may become to a degree *just another* aspect of marketing, with the difference that the banks are selling to each other rather than to corporate customers outside the banking sector.

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Banks' package deals need to be innovative

WITH DEVELOPING countries burdened by their debt problems and oil rich states suffering reduced earnings, the big banks are having to be much more innovative in the packages they put together for the reduced number of trade deals and projects currently under way.

The debt crisis has taken its toll too on the export credit agencies, which are being urged by their governments to trim their services to exporters and increase their costs to reduce losses. Exporters are, in consequence, having to rely much more heavily on banks, which increasingly, are sharing the risks and effort involved in bidding for contracts, taking their rewards only when and if the bidder is successful.

One result is that forfaiting, counter and barter trade which a year or two ago were techniques largely used to finance east west trade are now being much more widely used. Many of the major banks have set up their own counter-trading departments despite the low profit potential. Forfaiting, which was developed in Continental Europe, is now being offered to exporters by the London-based banks, and is now estimated to be a $10bn market.

Similarly bartering in some form is estimated by GATT to be involved in 8 per cent of world trade and is worth some $160bn. This is a very conservative estimate and soma observers put it as high as 40 per cent with straight buy-back deals accounting for some 17 per cent.

The products involved can be as far removed as an aircraft manufacturer agreeing to promote tourism for the buyer country. In the Middle East goods are increasingly being paid for in oil.

Banks though increasingly prepared to share in risks are having to becoma more discerning in selecting projects. Non-recourse and pre-completion lending, particularly for energy and mineral resource projects in politically stable countries is becoming much more widespread. This type of project financing is also beginning to be extended to the financing of aircraft manufacture with the repayments of the loan being tied to the sales of the aircraft.

However, tha recent fall in oil prices has demonstrated the inherent problems of limited recourse financing, where the main security for the loan is tha future cash flow of the project. This is even more the case in pure non-recourse lending which is entirely secured against the revenue generated by the project.

With banks wary of increasing their exposure in potentially high risk areas in the developing world where projects are subject to delays or cancellation the World Bank's new co-financing formula, the so-called "B loans," has generally been welcomed.

With the aim of encouraging commercial banks to continue lending to the developing countries by improving the

Trade and Project Finance
MARGARET HUGHES

security of the project, the World Bank participates directly in the commercial loan for a project and in addition puts up its own separate loan. The new co-financing formula is still in its pilot phase but since it was introduced in 1983 six project finance deals have been signed.

The first was for Hungary, marking its debut as a World Bank borrower, since it became a member in July 1982. A second financial package involving World Bank "B loans" has since been arranged for Hungary and at the beginning of April a third was approved by the World Bank board.

Similar financing has also been arranged for Colombia, and Paraguay, while Brazil is the first country whose debt is being rescheduled to benefit from the new scheme.

Two other projects which have been earmarked for co-financing this year, are for telecommunications in Pakistan, and energy in Turkey. Two projects are also in the pipeline for Yugoslavia but its rescheduling programme has to be resolved first.

The World Bank argues that the new formula allows banks to increase their exposure to countries but with a reduced risk because of the security of World Bank involvement. However, banks are not universally enthusiastic. They criticise World Bank's ponderous bureaucracy and the fact that it insists that the projects are put out to open tender.

The intense competition for projects has forced banks to pare margins and extend maturities. It has also led to wider resort to mixed credits — the mixing of aid with commercial export lending — undermining much of the earlier intergovernmental progress within the Organisation for Economic Co-operation and Development (OECD) on eliminating interest rates subsidies.

Mixed credits remain a vexed issue, with the U.S. (a strong critic of the practice) and the French, who make enthusiastic use, at loggerheads. Washington being the biggest critic and Paris the greatest perpetrator. In the meantime even Governments like Britain, America's most active supporter, continue to use aid to make the terms of its exporters' project financing more attractive.

According to latest OECD figures France does by far the highest proportion of mixed credits financing, accounting for 42 per cent of the total. However, possibly to the surprise of many UK exporters, Britain comes next at 22 per cent while Italy and Japan are about even at 9 per cent each.

Having failed to persuade France into abandoning the practice the Americans are now retaliating by playing the same game. The U.S. Eximbank has offered mixed credit on seven projects although only one produced a contract, in Indonesia. Ironically, the Jakarta Government has just come out against mixed credits, declaring that in future its contracts will be put out to international tender on the basis that this often produces the cheapest prices and financing.

But although France makes the most liberal use of aid to help its exporters win contracts, it is by no means the largest overall supporter of exports. According to OECD figures, Japan supports a higher proportion of its exports than any other country at 38.9 per cent, with Britain e fairly close second at 31.9 per cent. France at 18.9 per cent, West Germany 9.5 per cent and the U.S. 7.8 per cent.

In the UK the Export Credits Guarantee Department (ECGD) is considering cutting its loss-making sarvices, such as its comprehensiva external trade and tender to contract facilities. At the same time tha debate over the extent to which exports should be subsidised has become more vocal.

Trade and Industry Secretary, Mr Norman Tebbit, and others warn against over-enthusiasm in winning export orders if the cost in gaining them outweighs the benefit it brings to the exporter and the economy. The Commons select committee on trade and industry, however, edvocates greater support for British exporters. The Government is considering whether to offer soft loans to finance contracts in China claiming that countries have already broken the informal pact not to offer such finance.

The Overseas Project Board of financiers and industrialists who edvise the Government on the export of captial goods has recently attacked its "ambivalent attitude."

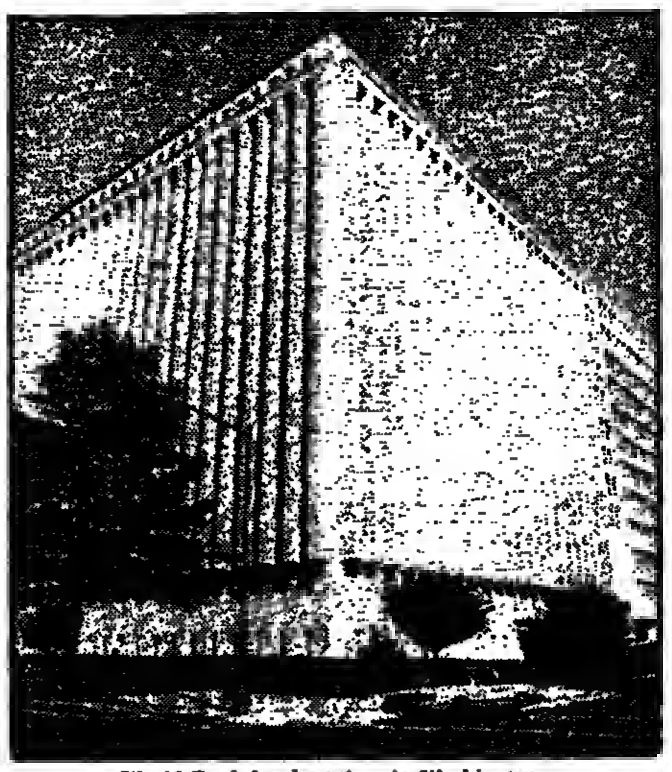
But while the Americans are moving in this direction there ere opposite moves afoot in Britain. Earlier proposals pot forward by a government-commissioned study that ECGD should be hived off in a separete public corporation have been rejected. But the Bank of England and Treasury are now investigating proposals pot forward by merchants bankers, Morgan Grenfell, for establishing as specialised export bank.

The advantage of such a bank, its sponsors argue, is that it would be abla to raise finance itself on the capital markets at a cheaper rate than the present cost of subsidising interest rate on commercial bank loans. If, as is proposed, the Bank of England had e 15 to 20 per cent stake in such a bank it would be virtually a sovereign borrower, commanding a high credit rating.

The possibility of financing exports through the capital markets has been under consideration for some time. Bnt one of the major obstacles has been the need to metch the requirements of the Eurobond investor with the financing needs of the exporter and his overseas borrower.

This would be overcome, the sponsors argue, because the export bank would be able to raise funds in the market on e continuous basis, disbursing the cash for individual projects in the staggered drawdown schedules demanded in project financing.

Morgan Grenfell broke new ground at the end of last year when it arranged the first capital markets loan for Britain'a ECGD raising $155m through a floating rate role by a somewhat indirect route to re-finance Brazil's trade debts with Britain. The bank hopes to be able to use this mechanism later to finance new export projects.



World Bank headquarters in Washington

New talks aimed at easing global restrictions

THE next twelve months could see the start of the first serious attempt to identify and tackle the barriers to international trade in banking and financial services.

It will not be easy to win international political consent for liberalisation, let alone to *dismantle the barriers* by negotiation.

Much depends on a series of *meetings of leading member* nations of the General Agreement on Tariffs and Trade in the *coming months*. They are being pressed by the U.S., Japan (not itself an open market to trade in services), hy the UK and some others to launch a new round of global trada negotiations, starting next year but probably taking five years or mare to complete.

It may turn out, as U.S. trade officials bave been saying recently, that the complicated and controversial issue of free*ing* trade in services will not even reach the Gatt negotiating table for several more years. The impetus is there nonetheless.

That e question of such political delicacy for many developing countries should be under discussion at all is due largely to an unremitting campaign by the U.S. Administration over the past three of four years. At times that campaign *has looked rashly aggressive*, fomenting suspicion that tha next Gatt negotiation is to be predicated on a trade-off in which the U.S. itself and other big exporters of financial services would come off best.

U.S. policy has been shaped partly by domestic pressures, partly by the American economy's increasing dependence on tradeable services, and partly by ideological commitment to trade liberalisation in general.

The domestic pressure has been provided by lobbies like the Coalition for Service Industries, chaired by tha president of American International Group, with vigorous support from companies like American Express, whose interests cover a wide range of international transactions.

Developing countries, led by Brazil and India, have grudgingly conceded that the broad parameters of a possible negotiation to free servicea trade should be considered with the help of the Gatt secretariat.

That small concession was only echieved after s serious diplomatic confrontation at the last annual meeting of the Gatt's 90 member states in Geneva in November.

Of all the service industries, banking could prove the least susceptible to worldwide deregulation, since it lies at the heart of every nation'a industrial and economic planning. It is not *only* in the *developing* world that governments bar or severely limit tha operetions of *foreign* banks, on *grounds* of national sovereignty.

Total world trade in invisibles *was estimated at over* $700hn in 1982, the latest figure availeble. The U.S., although heading for a deficit in invisibles according to some

Trade Barriers
CHRISTIAN TYLER

experts, traditionally accounts for 10 per cent of services exports, followed by the UK, France, West Germany, Italy and Japan.

Figures supplied to the British Invisible Exports Council show the U.S. heading the league of surplus countries in 1982, followed by the UK, France, Switzerland and Singapore. The deficit countries led by Saudi Arabia, followed by Japan, Brazil, West Germany and Canade.

The servicea statistics are, however, notoriously *difficult* to compile and compare—which is not the least of the problems *facing any negotiation* designed to frame global rules or codes for market access, domestic regulation.

Nevertheless, the sheer volume of the trade in banking services alona suggests to free-trade apologists thet a looser regime could provide a big stimulus to trade of all kinds.

According to the U.S. Government's own study of services trade, submitted along with reports from nearly a dozen countries, to the Gatt, discrimination against foreign banks can create "substantial distortions" in the world flow of services. It argues that such discrimination could be reduced or even abolished without damaging policy objectives.

"Discrimination against foreign banks, both with respect to establishment and national treatment, sometimes serves the almost exclusive end of sheltering domestic firms from competition," the study says.

Three main kinds of restrictions were identified: Restrictions on entry to o foreign market; discriminatory rules that put incomers at e cost disadvantage with local hanks; and non-discriminatory regulations with "*non-banking* objectives" that hampered tha outsider. Examples of the last kind included foreign exchange controls, immigration controls and professional licensing requirements.

Entry restrictions might ranga from absolute prohibition to selective controls on the kind of service that a foreign-owned bank is allowed to perform. Some countries will permit a *representative* office with o mainly liaison role, or will forbid take-overs of local hanks, or restrict the amount of equity that o foreign bank may hold in a native institution.

Operating costs for foreigners may be higher because of higher reserve requirements, higher capital-to-assets ratios or higher taxation. In some cases the local banking rules are simply applied more stringently *to foreigners than to natives*.

The outsider's ebility to compete may be curtailed in respect of business done *outside the* country where he has secured a foothold. There may be limits on Government deposits, or it may be denied the chance to finance subsidised or officially-supported export credits.

It may be denied access to central rated bank rediscounting facilities, or denied deposits from insurance companies, or limited as to the kind of securities or other financial assets he is allowed to ecquire.

Netional (that is, non-discriminatory) treatment and rights of establishment are the two prizes sought by the free traders. The very weight and variety of barriers already in place suggests that negotiations to remove them—if negotiations there be — will be among the tonghest items on the proposed Gatt agenda.

Patchy recovery in earnings

The U.S.

PAUL TAYLOR

OVER THE past few months there has been a sharp and favourable swing in Wall Street's perceptions of the U.S. Money Center banks. Less than a year ago, in the wake of the $4.5bn Federal bail-out of Chicago's Continental Illinois, Money Center bank stocks were selling at a substantial discount to book value.

Investors steered clear of big bank stocks as earnings laboured under the burden of soaring domestic and Third World problem loans and regulators began demanding higher loan loss reserves and primary capital ratios.

In contrast most of the smaller regional bank stocks were commanding healthy premiums—buoyed by impressive earnings gains.

But all that has changed. The Money Center Banks, under pressure, have moved aggressively to bolster loan loss reserves, write-off problem loans and add to their primary capital. In addition most of them reported sharply higher 1984 final quarter and 1985 first quarter net earnings helping to heal some of the earlier wounds.

At the same time, although the Third World debt crisis has not gone away, it has slipped out of the immediate spotlight.

Meanwhile the headlines of the last few months have focused investor attention—and concerns—on the problems of other members of the U.S. financial and banking industry.

The collapse of several small regional government bond dealers earlier this year sent shock waves reverberating through the U.S. financial system and directly led Ohio's State Governor to declare the first extended "bank holiday" since the depression years.

The privately-insured Ohio Savings Bank crisis, coupled with further heavy losses at Financial Corporation of America (FCA), the California S & L holding company, and elsewhere among the nation's thrift institutions, has cast a long shadow over the U.S. savings industry.

This has coincided with major problems emerging at many small U.S. agricultural banks and among some Texas energy lenders and a growing sense that the regulatory environment has become tougher and tilted significantly towards the interests of the major banks.

Reflecting these factors Money Center bank stocks have soared on the recommendation of most of the major Wall Street finance houses while many regionals have languished.

While latest earnings results from the U.S. majors have generally been impressive, the recovery in bank earnings remains patchy and some majors like BankAmerica and Crocker National have yet to benefit in any real way from the upturn.

Crocker National, the Midland banking group's ill-fated Californian subsidiary, managed to edge back into the black in the first quarter under its new management with a $9m profit compared to a $121m loss in the same period last year. But it still ranks bottom of the list among the 15 largest U.S. banks in the key measures of profitability. And its burden of non-performing loans has only just begun to decline.

Similarly, although BankAmerica managed to post a 13 per cent advance in first quarter net earnings, its non-performing loans at $3.55bn or 4.2 per cent of total loans, edged up from the fourth quarter.

Among the Texas Energy banks, Texas Commerce Bancshares, reported its first quarterly earnings decline in 16 years, largely because of higher provisions for loan losses and net loan write-offs.

Like several other major Texas banks, Texas Commerce has also fallen foul of bank regulators who have questioned a loan to a director and charged that reserves for loan losses at the end of 1984 were inadequate — a charge hotly disputed by the banking group.

First quarter results from the major U.S. banks also point up some other significant factors generally affecting U.S. bank earnings at present, as well as highlighting the diversity apparent among the nation's major banking groups.

J. P. Morgan and Bankers Trust—both groups with little consumer business—continue to lead the profitability tables although a handful of other banks bouncing back from depressed year-ago earnings levels—registered bigger percentage net income gains.

J. P. Morgan and Bankers Trust attributed their own earnings gains primarily to higher net interest income, reflecting wider margins between lending rates and funding costs and an increase in interest earning assets.

In contrast, Citicorp's long and costly investment in consumer banking appears to be finally generating returns. The New York-based banking giant, which ranked third in first quarter return on assets among the 15 largest banks and posted a healthy 24 per cent net earnings gain, said its income from consumer activities rose by 57.8 per cent to $60m.

Significantly, this gain was achieved with a relatively modest 29 per cent rise in consumer banking assets—fleshing out profit margins and emphasising the renewed drive at the world's largest banking group under its new chairman, Mr John Reed, for high profitability.

In fact, with the exception of First Chicago which reported a 23 per cent decline in first quarter net income, after writing down its investment in a Brazilian affiliate, all the major U.S. banking groups reported higher net earnings in the first three months of this year.

This improvement generally reflected higher net interest margins, an expanding asset base at all but two of the U.S. majors, BankAmerica and Continental Illinois, and higher fee income. These positive factors have been partly offset by a continuing high level of problem loans and further heavy loan loss provisions and write-offs.

But the substantially higher first quarter provisions reported by many of the major U.S. banking groups also reflect their continuing efforts to bolster reserves against future possible loan losses. These reserves also count towards the bank's primary capital to assets ratios which have been strengthened substantially in the past year.

Among the 15 largest U.S. banking groups this key measure of bank "safety" has risen from an average of 5.72 per cent a year ago to 6.13 per cent. All the major banks now have primary capital ratios above the recently imposed 5.5 per cent minimum and only three, Citicorp, BankAmerica and Manufacturers Hanover, now have primary capital ratio's below the six per cent minimum level which will be imposed next year.

Whether these levels are sufficient to prevent a repeat performance of the crisis in investor confidence which brought Continental Illinois to its knees last year, remains to be seen.

Already Wall Street's renewed enthusiasm for the major Money Center banks has been accompanied by some cautionary remarks. Last month Mr George Salem of Donaldson, Lufkin & Jenrette, issued what he termed "an attempt to fine-tune our existing bullishness on Money Center bank stocks."

In his report, Mr Salem cited two basic reasons for a limited downgrading in ratings, a renewed deterioration of the general less-developed countries' situation, especially in Brazil, and, "the likelihood that interest rates will not fall materially over the next few months."

Mr Salem's comments could prove a timely and sobering reminder that many of the fundamental problems that have afflicted the major U.S. banks, and bank earnings, over the past few years may not have gone away for good.

U.S.

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	−0.3	2.6	−2.0	3.8	6.9
Inflation (%)	13.5	10.4	6.2	3.2	4.3
Current accnt. balance (US$m)	1,890	6,290	−9,190	−41,580	−100,000
Trade weighted index	99.76	108.69	127.54	145.42	160.77
Real trade weighted index	89.79	96.28	104.90	109.40	111.80

Top 20 U.S. banks 1st quarter 1985 results

	Asset $bn	1st Qtr 1985 Net income $m	% Change on Year	1st Qtr 1985 provision for loan losses $m	1st Qtr 1985 Net charge-off $m	1st Qtr 1985 reserve for loan losses $m	As % of loans total	1st Qtr 1985 Non-performing loans $m	As % of loans total	Primary capital ratio
Citicorp	154.6	277.00	+24.0	118.0	184.0	952.0	0.92	2200.0	2.20	5.93
BankAmerica	117.9	114.00	+13.0	209.0	221.0	997.0	1.20	2546.0	4.20	5.99
Chase Manhattan	85.7	133.90	+31.0	95.0	74.0	779.0	1.20	2400.0	3.90	6.53
Manufacturers Hanover	72.8	100.20	+19.3	108.7	80.9	660.2	1.15	1840.0	3.20	5.95
J. P. Morgan	62.7	164.60	+12.7	30.0	14.0	598.0	1.69	870.0	2.46	7.09
Chemical New York	55.7	89.70	+10.3	33.6	30.1	456.4	1.20	1261.0	3.38	6.52
Bankers Trust	46.5	92.50	+25.0	45.0	27.9	381.6	1.58	731.0	3.00	6.18
First Interstate	46.1	71.50	+12.2	59.0	53.0	396.1	1.32	1145.0*	3.81	6.16
Security Pacific	45.2	73.50	+ 8.2	78.8	78.6	520.2	1.57	1189.0	3.80	6.42
First Chicago	40.6	38.30	−23.0	80.0†	65.3†	306.4	1.20	768.0	3.00	6.19
Mellon Bank	30.7	41.50	+25.8	20.2	16.8	307.0	1.56	587.3	2.99	6.92
Continental Illinois	28.8	38.30	+33.7	37.0	18.0	385.0	1.66	937.0	4.00	7.43
Wells Fargo	27.9	44.95	+12.0	128.6††	52.5	335.9	1.43	716.7	3.10	6.80
First Bank System	23.4	37.20	+17.5	35.0	17.0	190.9	1.45	472.5*	2.02	6.27
Bank of Boston	22.6	43.90	+76.0	20.0	15.0	247.4	1.66	474.0	3.20	6.90
Crocker National	22.5	9.00	N.M.	25.0	26.0	299.0	1.93	1007.0	6.50	6.39
Marine Midland	22.1	25.90	+14.4	35.0	17.0	219.0	1.47	526.0	3.57	6.99
Republicbank	21.8	35.40	+19.3	19.2	11.7	200.0	1.39	495.0	3.40	6.20
Interfirst	21.3	15.10	+57.3	92.9	42.7	289.0	1.87	797.0*	5.11	6.74
Mcorp	20.5	34.80	+46.8	21.9	26.9	173.0	1.26	N.A.	N.A.	N.A.

* Non-performing assets. † Including American National. †† Including special addition of $65m; excl. provision was $63.6m.

Research: Rivka Nachoma

Gap narrows between four pillars

Canada

BERNARD SIMON

CANADA'S MAJOR banks are by far the most powerful players in domestic financial markets, but they stand to gain least from present moves to loosen some of the barriers betweeo the traditional "four pillars" of the Canadian financial system.

Tha banks have angrily rejected government proposals on the future regulation of financial institutions published in mid-April which maka it clear that they will have to temper their ambitions for the next few years while competitors are given a chance to catch up. One Toronto securities analyst observed that the government plans to put "the banks in a glass cage, and they'll have to watch the world change around them."

Gaps between the four pillars have narrowed over the past two decades as the banks, for example, have moved strongly into the mortgage and consumer lending fields. But some clear differences remain.

Banks are the only institutions in Canada with full freedom in commercial lending. Discretionary fiduciary activities are limited to the trust and loan companies. Life insurers have a monopoly on underwriting life insurance policies, while only investment dealers can freely underwrite corporata securities and be members of stock exchanges.

Before the release of the latest recommendations, the banks lobbied bard to convince a sceptical public that big is not necessarily bad, and that it was in consumers' interests to allow the banks to spread their wings.

Mr Rowland Frazee, chairman of the Royal Bank of Canada, argued recently that giving a freer rein to all market participants "will not lead to a domination by five or six institutions, any more than McDonald's and Burger King have wiped out restaurants . . . an era of changing consumer needs, intensified competition and expanded technological opportunities requires widened powers for us as for our colleagues in other segments of financial services."

The new proposals suggest, however, that rules governing the existing schedule A and schedule B banks—the 14 domestic and 58 foreign-owned banks respectively — should remain substantially unchanged until tha next ten-year review of the Bank Act, due in 1990.

Some banks' hopes of moving directly into the corporate underwriting business or becoming more active in portfolio management are thus unlikely to be fulfilled for some time.

The present 10 per cent limit on any singla shareholding in a schedule A bank will remain, as will rules limiting the business of the foreign-owned, schedule B banks to 16 per cent of the banking system's total domestic assets. (The ceiling was doubled from 8 per cent in 1984).

On the other band, the new policy will clear the way for owners of other types of financial institutions — notably trust and insurance companies —to become full participants in the banking sector, with up to 100 per cent control of new bank subsidiaries.

The proposals (which may becoma law by the end of this year) will allow different types of financial institutions, including a new category of schedule C bank, to be commonly owned through a financial holding company. Thus, a trust company will not be given wider freedom in commercial lending, but its associated financial holding company would hava full access to this market by forming a schedule C bank.

Although these associated companies will be required to appoint separate boards of directors and publish separate financial statements, they will be allowed to share resources, such as computer systems and sales forces. As the Government notes, tha changes will "make it easier for non-bank financial institutions to provide one-stop shopping."

To the consternation of the banks, the proposed changes are likely to bring tha biggest benefits to a number of non-bank financial conglomerates that have already expanded rapidly in the past two or three years. Two stand out:

● The Brascan Group, controlled by Peter and Edward Bronfman, nephews of Sam Bronfman, founder of the Seagram wine and spirits group. Brascan has a 39 per cent interest in Trilon Financial, a financial holding company which controls Royal Trust, the country's biggest trust company, and London Life, a leading life insurer. Two other Brascan affiliates, Hees International and Great Lakes group, are emerging as Canadian equivalents of British merchant banks. Another Bronfman-controlled company has a substantial minority interest in Continental Bank, tha seventh largest schedule A bank.

● Montreal-based Power Corporation, whose non-financial holdings include a 9 per cent stake in the industrial and transportation giant, Canadian Pacific. Among Power'a financial interests are Great West Life, the country's largest shareholdar-owned insurance company, and Investors Group, a leading provider of financial planning services. Power ia a partner with three European groups in Pargesa, the Geneva-based holding company with extensive banking and investment interests in the U.S. and Europe.

Assets under Trilon's control are larger than the domestic assets of Royal Bank of Canada, the country's largest banking group. (The banks contend that their international business should be excluded in comparisons with the emerging non-bank financial conglomerates.) Only Canada'a three largest banks have domestic assets greater than Power Financial, the financial services arm of Power Corporation.

Despite the latest setback to their ambitions, tha banks are likely to press ahead with ventures giving them a toehold—if not a foothold—in their competitors' territory.

Canadian Imperial Bank of Commerce (CIBC) has become a minority shareholder in ona of the Brascan companies, Great Lakes Group. Bank of Montreal's takeover last year of Harris Bankcorp of Chicago gives it access to substantial securities management and other fee business providing a useful base for similar services in Canada, if and when existing restrictions are eased.

Montreal-based National Bank wants to provide a securities "safekeeping" service without registering with the Quebec Securities Commission.

Tha banks clearly believe that the pressures for deregulation that have built up both in and outsida Canada in recent years are not about to subside.

Canadian Financial Institutions

Financial assets (1967 and at June 1984).

	C$bn 1967	C$bn 1984	Percent of total assets 1967	Percent of total assets 1984
Major deposit-taking institutions:				
Chartered banks	24.9	213.9	34.3	37.4
Trust and loan companies	7.0	63.3	9.6	11.1
Cooperatives	3.3	40.2	4.5	7.0
Contractual-savings institutions:				
Life insurers*	12.8	63.4	17.6	11.1
Trusteed pension funds	8.0	83.8	11.0	14.6
Other financial institutions:				
Private sector†	10.8	62.9	14.9	11.0
Public sector‡	5.9	45.1	8.1	7.9
Total	72.7	572.6	100.0	100.0

* Includes their accident and sickness insurance operations and segregated funds.
† Includes property and casualty insurance companies, sales finance and consumer loan companies, investment dealers, mutual funds, Quebec savings banks, mortgage investment trust corporations, financial leasing companies and business financing corporations.
‡ Excludes Bank of Canada.
Source: Financial flow accounts, Canada Gazette, and Bank of Canada Review.

Canada

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.0	4.0	−4.2	3.3	4.7
Inflation (%)	10.2	12.4	10.8	5.8	2.2
Current accnt. balance (US$m)	−953	−5,055	2,110	1,365	1,500
Exchange Rate: C$ vs US$	1.17	1.20	1.23	1.23	1.30
Trade weighted index	84.49	84.49	85.22	87.81	85.71
Real trade weighted index	86.95	87.57	90.26	93.45	91.10

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Shares achieve touch of glamour

Japan

ROBERT COTTRELL

THE SHARES of Japan's big publicly-quoted banks have been among the strongest performers in Tokyo's recent bull market, breaking out of an informally-maintained but rigid price structure which had kept banks' share prices stable relative to one another and in absolute terms.

The deregulation and internationalisation of Japan's financial system has turned the banks into glamour stocks. Sumitomo Bank, the most profitable of the 13 big commercial "city" banks, saw its share price rise from Y500 to a peak of Y1,910 between January 1984 and January 1985. As its mid-April price of Y1,610, Sumitomo Bank enjoys a market capitalisation of around £12bn, the largest of any publicly-quoted Japanese corporation.

Optimistic investors see Japan's banks as financial giants now being belatedly freed from bureaucratic fetters. Japan has five of the 10 largest international banks in the world. Japanese banks' overseas offices form the busiest single national group of banks in the London Euromarkets, accounting for over one-quarter of international lending there.

At home, they manage the financing of the second-largest economy in the non-Communist world, with virtually no foreign competition at the retail level, and very few inroads at the level of corporate and institutional banking.

Japan, encouraged by the U.S., has embraced financial liberalisation with enthusiasm. The country's international banking is now poised on the verge of its greatest-ever transformation, with the probable establishment of an offshore banking market in Tokyo to specialise in Euroyen transactions.

The principal brake now on further changes within the domestic banking system is no longer bureaucratic inflexibility, but regulators' prudential concern for the stability and prosperity of smaller and specialist institutions which have until now enjoyed official protection from free competition.

An officially managed retail interest-rate cartel, for instance, prevents the big aggressive city banks from poaching deposits away from small, regional savings banks.

Where Britain has four major clearing banks, and a few significant second-tier institutions, Japan has 13 "city" banks, and then literally dozens of other, smaller institutions. The city banks have big, typically urban, branch networks, and lend for periods of up to three years.

The city banks' main rivals are the 64 "regional banks," which have deposit bases in individual prefectures, but are allowed to branch beyond. The regional banks are smaller than the city banks, but do the same sort of retail and corporate domestic borrowing and lending.

Smaller still are Japan's 69 mutual savings banks, 456 credit unions, and 463 credit co-operatives. These small local units are allowed to offer interest rates slightly higher than the city banks, but generally do strictly local business.

The segmentation of banking institutions and the official management of interest rates was valuablo to Japan during the three high-growth post-war decades when an efficient bank was one which channelled domestic household savings to domestic industrial borrowers with the minimum of fuss.

Japan

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	4.8	4.2	3.1	3.0	5.6
Inflation (%)	8.0	4.9	2.6	1.8	2.2
Current accnt. balance (US$m)	−10,750	4,770	6,850	20,800	35,000
Exchange Rate: Yen vs US$	226.74	220.54	249.06	237.52	237.52
Trade weighted index	129.92	142.03	134.14	150.40	159.85
Real trade weighted index	108.70	109.75	100.12	104.09	104.45

In recent years, however, Japan's corporations have responded to slowing growth by borrowing less from banks, which now provide just 10 per cent of external corporate funding. Households have continued to save rather than spend their rising incomes and have become more discriminating with affluence: the proportion of household financial assets held in cash and demand deposits fell from 11.2 per cent in 1980 to 2.6 per cent in 1983, according to figures compiled by stockbrokers Vickers da Costa.

Squeezed between blasé borrowers end demanding depositors, Japan's banks are fighting to cut fixed costs and raise returns through more imaginative asset management. All the city banks are investing heavily in bigger and faster computerised cash transmission and information networks.

All are developing international capital markets expertise and offering more imaginative domestic investment vehicles, such as money-market certificates, geared to higher-returning assets.

The stock market appears to be saying that Japan's biggest city banks will, with their financial muscle and overseas expertise, thrive on deregulation at the presumed expense of the smaller and more specialised rivals. If so, financial sector takeovers may soon becomo commonplace, though corporate takeovers of any kind have traditionally been rare in Japan except as a means of last-ditch rescue.

Japanese banks, having until recently chafed under regulations dating back in many cases to the 1920s, are now being cast in the role of iconoclasts.

Long-term lending is the province of the "long-term credit banks," which unlike city banks are allowed to raise long-term funds through issues of debentures.

Discretionary management of trust funds is the province of specialist "trust banks." Japan has seven—though a "grandfather" clause allows Daiwa Bank, a city bank, to share this field. Licences are due to be issued in June permitting eight foreign institutions to start trust banking. Most bankers believe the field will be opened up to City banks within the next five years.

Other important specialist institutions are the Norin Chukin, a federation of rural co-operatives; and the postal savings bank which, with some U.S.$350bn of deposits, is the world's biggest deposit-taker.

The postal savings bank offers two advantages to small savers: its interest rates are slightly higher than those of the banks; and it operates no effective deterrent against tax evasion by depositors.

In theory, each Japanese taxpayer can maintain up to Y3m in a postal savings account before attracting tax on interest payments. In practice, individuals can maintain multiple accounts, illicitly increasing the exemption.

JAPAN'S POSTAL SAVINGS SERVICE

World's largest deposit-taker

JAPAN'S Postal Savings Service, managed by the Postal Savings Bureau of the Ministry of Posts and Telecommunications, is tho world's largest deposit-taker.

Its most recent balance sheet, for March 31 1984, showed deposits of Y86.3 trillion (million million), or about £270bn at current exchange rates, equivalent to a market share of 25.4 per cent of all deposits with Japanese financial institutions.

The Postal Savings Service's parentage is held by many Japanese bankers to be the main reason for its success. The MPT stands outside the interest rate structure fixed for other financial institutions undor the aegis of the Bank of Japan, the country's central bank, and fixes postal banking deposit rates slightly higher than these offered te retail customers by Japan's high street banks.

The PSB also makes life easy for income tax evaders, by making no effective checks on abusers who open multiple accounts to profit several times over from tax exemptions available to small savers.

While the interest rate advantage may vex bankers, the Postal Savings officials themselves say it is more than offset by restrictions placed on the asset side of their balance sheet.

Postal Savings deposits are lent on to the central government via a trust fund operated by the Ministry of Finance. The Government pays an interest rate pegged below the yield on its bond issues.

Deregulation of domestic interest rates is an officially declared objective of Japan's broad range of financial liberalisations now in progress. Large deposit rates are already effectively deregulated, with the advent of international investment vehicles, government bond investment funds, money market certificates and low-denomination CDs.

Retail rates remain, however, in a cartel and low, and seem likely to do so at least for the next few years.

Japan's big banks say they would like to pay free-market retail interest rates—but that the Gevernment, with its vested interest in containing the flow of cheap money, wants to keep regulated interest rates in order to maintain the Postal Savings Bureau's competitive advantage.

Mr Shigeo Sawada, director general of the Postal Savings Bureau, says he would welcome interest rate deregulation, but only if his bureau received along tho way the freedom to invest in free-market assets.

> Statistics suggest the PSB needs to find some way of livening up its investor appeal. Mr Shigeo Sawada, director general of the PSB says he would not be against interest rate reregulation if his bureau along the way, received the right to invest in free-market assets

Snch a shift need not mean a drying-np of funds to tho Government. Mr Sawada said that, oven under a liberalised regime, the Postal Savings Burean would still be investing its funds in pnblic bonds, mostly government issues. So conservative an asset book would prevent the Postal Savings Burean mounting a market share war to bid deposits away from tho banks, argued Mr Sawada, while tho Government would still get its money—at a fair price.

Bankers may say the Postal Savings Bureau's talk about deregulation is designod to obscure their own enjoyment of an easy life. Bnt statistics suggest a clear need for the PSB to find some way of livening np its own investor appeal.

Its 1984 market share of 25.4 per cent, while still high, was down from 30.9 per cent in March 1983, reflecting, the Bureau acknowledges, an increasingly sophisticated public looking for higher-yielding deposits.

Big banks ready for rivals

Australia

LACHLAN DRUMMOND

THE AUSTRALIAN banking sector is on the brink of a massive expansion of its numbers which will intensify existing competitive pressures in a crowded financial services sector. On February 27 the Federal Government announced that 16 foreign groups would be invited to apply for banking authorities and the most advanced of these proposals can be expected to be through the net of final approvals within six months.

Almost all of the 16 new bank applicants, which in many cases inclnde significant local institutional partners, have an existing core of operations to bring to their new banking ventures, providing a profitable and operational base for their new lives as banks.

As examples, Citicorp—which on a global basis outstrips the entire Australian banking sector in terms of total assets—has some A$2.5bn of assets in its local finance company and merchant bank offshoots, Barclays has more than A$1bn of assets spread through its operations and Bankers Trust has a highly successful fee-oriented merchant bank which earned A$18m for 1984.

The foreign parents do not in all cases intend merging these interests into their new banks, although where they have run into reserve bank opposition and this matter has yet to be settled entirely.

With the additional competitive edge that existing operators will gain from access to cheaper funds under bank status, the three major private banks and thethe government-owned Commonwealth bank will see their once cosy position eroded.

As a part response, the Westpac and National Australia banks are each close to seeking formal approval to establish life insurance operations to broaden the range of products offered and to compete head-on with the new banks established with local institutional partners.

The banks have also pushed offshore, most notably with the ANZ's acquistion of Grindlays Bank, a step which has caused problems on reciprocity with the Swiss and Indian Governments, two nations which failed to gain bank licences this time round.

Meanwhile, the moves by the Westpac and National on life insurance are direct shots ecross the bows of the partnership between Chase Manhattan and the Australian Mutual Provident Society, which intends to move smartly to total assets of some A$2bn with a full service bank.

With 2m policyholders and as the biggest institutional investor in Australia, tho AMP has an enviable list of contacts for seeking business. This headstart is almost rivalled by that of the National Mutual Life, which has teamed up with Royal Bank of Canada, although with a more corporate bias to its business outlook.

The pending introduction of additional foreign banks, meanwhile, has not been the only significant step in the banking sector. In the past year tho Government has issued 40 foreign exchange dealing authorities to merchant banks previously excluded from the bank-only preserve, although only a few merchants are active in foreign exchange.

In eddition, as from August 1 last restrictions prohibiting the trading banks taking deposits of less than 14 days were lifted a step which has had a marked effect on the merchant banking sector which had prospered in this fallow ground of the short-term money market.

Australia

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.7	4.4	−0.3	1.6	6.2
Inflation (%)	10.1	9.7	11.1	10.1	4.0
Current accnt. balance (US$m)	−4,136	−8,244	−8,152	−5,445	−7,500
Exchange Rate: A$ vs US$	0.88	0.87	0.90	1.11	1.14
Trade weighted index	82.61	86.16	85.49	78.67	80.90
Real trade weighted index	89.15	95.91	96.72	93.97	98.45

Although the merchant bank sector managed to boost its total assets from A$16bn to A$19bn last year more recent figures from the Reserve Bank show that in the four months to the end of January there was almost no growth in merchant bank deposits while trading banks had grown by around 7 per cent as re-intermediation followed from the August 1 move.

It is the perception of this pressure on the morchant bank sector which saw Hill Samuel Australia pursue a conversion to a fully fledged bank under tho existing domestic banking rules

It emorged as Macquarie Bank one week after the government announcement on tho 16 new entrants, but as a 30 per cent owned affiliate of Hill Samuel UK rather than e 100 per cent subsidiary.

Such e reduction in tho foreign shareholding level runs counter to tho concession granted to foreign-connected merchant banks last October which provides a moritorium on normal foreign investment rules for 12 months to allow a necessary rationalisation and reorganisation after tho granting of bank licences.

As a result, a string of morchants have dumped thoir local equity partners, launched bids for listed affiliates or sought to expand into monoy market operation, which in recent years has ben closed to entry by new 100 per cent foreign operators.

Indeed, there is an expectation that morchant bank numbers will be swollen—six wore added last year—despite an apparently more competitive market.

The effects of this competition were evident last year, with the Peat Marwick Mitchell's recent survey of financial institutions showing merchant bank sector profits up by only 1 per cent to $144m.

The clear winners yast year were tho major trading banks, with combined profits for the big four—excluding their savings bank and finance subsidiaries—ahead from $490m to $704m.

With their capital bases also restored through e series of rights issues, the big banks could not be ln better bealth to confront their new rivals.

Competition cuts into profits

New Zealand

[illegible] HAYWARD

NEW ZEALAND banks expect to have reduced profits this year—but no bankers are really complaining. The drop in profitability comes from the new and much fiercer competitive environment in the New Zealand banking scene, caused by the sweeping removals of the former wide-ranging regulations and controls.

Under the former tightly controlled and regulated system, which put ceilings on interest rates, imposed tight ratios, and generally restricted the freedom of the banks to operate within the monctary system, banks could not help but make big profits. This did not help improve the public view of banks.

Since last July the new Labour Government has moved with almost breathtaking speed to remove all regulations and controls. For the first time in 50 years controls on foreign exchange capital transactions have been abolished and the whole financial system opened up for free competition.

Bankers must be more competitive, more aggressive to compete for business, more flexible in their approach and eble to react quickly to the needs of the market and their customers. Bankers have responded in a positive way. None would exchange the new competitive and free atmosphere—even though it means cutting margins and reduced profits—for the old regulated system.

They are enjoying the new competitive climate. The challenge is particularly welcomed among midde management bankers who will be et the top of the profession in a few years.

New Zealand banks are producing a range of new services to attract customers. They are going ont to compete for deposit funds and for investment opportunities.

In the long run bankers are convinced the new competition and the need to tailor banking services to suit indivldnal customers will bring cheaper money for bank borrowers, more efficient financial operations, a bigger range of banking services end more attention to tho needs of individual customers.

It is not only the trading banks that are moving into e more competitive world. The Post Office Savings Bank and the Trustee Savings banks havo also adopted a more vigorous attitude to attract customors and deposits.

Some years ago, New Zealand trading banks combinod to set up Databank—intended originally as an electronic cloaring house. It has developed into a much bigger, important organisation, processing all paper and transactions for the four trading banks.

The fonr trading banks have again colleborated in the setting up of an electronic funds transfer point of sale (EFTPOS) system in New Zealand this year.

This is halfway through a six month trial period, and although some details regarding the division of costs and profits between banks, retailers and the public still have to be hammered out, nobody doubts that EFTPOS will soon be operating nationally throughout New Zealand.

The trading banks claim the country could be tho first in the world to have a truly nationwide EFTPOS system in which every branch and every trading bank is on line on the opening day.

The arrival of EFTPOS has helped focus further attention on tho electronic dovelopment in banking. Millions of dollars have been invested to give Databank the most sophisticated and modern banking technology evailable.

In a three year redevelopment project, which is already employing 118 staff, Databank, and through it the trading banks, will be more flexible. It will have the ability to adapt more quickly or produce services, to fight competition and tailored for specific purposes.

When it was first established Databank caught the attention of world banking. Many bankers travelled to New Zealand to study its operation.

The new expanded technical development will once again make it among the foremost electronic banking systems in the world. It will be unique and equipped to help trading banks cope with whatever challenges arise over the next few years.

One problem facing the banks—and the other financial services in New Zealand, as a result of these developments, is the possible shortage of skilled people to utilise the latest electronic developments to full advantage.

Cast in role of Government's milch cow

South Africa

JIM JONES

SOUTH AFRICA'S banks are in a period of rapid adaptation to a changing environment. In line with the financial sectors of most countries in the Organisation for Economic Co-operation and Development (OECD) that of South Africa is characterised by a blurring of the differences between the various financial institutions.

Tighter controls are being introduced to bring local regulations more closely in line with those elsewhere and to give the Reserve Bank greater ability to limit credit creation. The tax regime is likely to be changed significantly towards the end of this year, and the entire banking sector is currently being cast in the role of a milch cow by a Government desperate for tax income.

Early in 1985, the Reserve Bank tightened controls by ruling that banks seeking temporary accommodation must find it directly from the central bank rather than from the discount houses. The new regulations were aimed at giving the authorities greater control over credit creation and inflation with the implicit threat that private sector banks which regularly sought accommodation would face penal accommodation rates.

Regulations to curb the banks' ability and propensity for circumventing domestic liquidity and capital requirements are in preparation. The Bank of England, in particular, has been concerned about the unregulated foreign activities of South African offshoots of British banking groups.

South Africa is not a signatory of the Basle concordat, which regulates banks' foreign activities, and several of the country's banking groups have the same capital requirements as domestic liabilities. An amendment to the Banks Act to be promulgated in July will obliged the country's banks to consolidate foreign liabilities when determining capital adequacy.

As a result, all of the major banking groups will need to increase their capital bases, though the more stringent requirements are likely to be phased in over several years. Standard Bank Investment Corporation (Stanbic), which is a subsidiary of Standard Chartered opted for a rights issue which, it is believed, will provide sufficient capital to enable the group to comply with any amendments to the Banks Act.

Stanbic has been the only major banking group to report improved pre-tax and attributable profits recently, which helped the company's stock market rating and facilitated acceptance of the issue.

Stanbic's rights issue will not be followed by Stanchar and, as a result, the British parent's interest in Stanbic will drop to 41.9 per cent from 50.3 per cent. Stanchar has renounced its rights in favour of Liberty Holdings which is South Africa's third largest insurance group and which already has close links and crossholdings with Stanbic.

The deal with Liberty will allow the Liberty Group to supplant Old Mutual, South Africa's largest insurance group, as the largest individual shareholder in Stanbic. It further polarises the relationships between the insurance groups and the banks.

Old Mutual has effective control of Nedbank, the third largest banking group, Barclays and Southern Life, the fourth largest insurance group, are closely linked; Sanlam, the second largest insurance group, Controls Trust Bank, the fifth largest bank, and Volkskas, the fourth largest bank, has close ties with Rembrandt, the tobacco group.

In recent months the banks have complained that regulatory changes are likely to hinder their ability to compete for deposits with institutions such as the building societies. This is an increasingly important consideration given the present trend for personal savings to decline as a percentage of gross domestic savings.

As a result the financial institutions have been obliged increasingly to resort to the comparatively expensive wholesale money markets for deposits.

Of course the major banks have not stood aside from the gradual blurring of differences between financial institutions.

Three years ago Barclays, the country's largest banking group, aggressively entered the mortgage market and rapidly established a home loan book of about R1.1bn, which represents just more than 8 per cent of the bank's total end-1984 advances.

Barclays' entry into the mortgage market was part of a successful strategy for gaining new account business, though it has led initially to negative returns on mortgage lending and has helped prompt some of the building societies to consider making the change from being mutuals with no shareholders to becoming quoted companies with equity shareholders and a greater ability to diversify away from the narrow focus of mortgage lending.

In his budget speech in March this year, finance minister Barend du Plessis announced an additional levy on banks to raise R100m for the Treasury. The levy is a back-dated charge of 0.25 per cent (one quarter of 1 per cent) on the average 1984 end-quarter domestic deposits of the banks.

Effectively it is a tax on size and was justified by the finance minister on tha grounds that the banks had been able to avoid paying taxes by making use of tax legislation covering financial leasing contracts.

This legislation was originally implemented as a device for reducing interest rates to industrialists whom, it was believed, would consequently invest in productive assets.

Mr du Plessis has said that the levy, which will be paid in two equal instalments this year and next, will not be repeated. However, the Margo Commission of Inquiry into South Africa's tax system is widely expected to recommend greater taxation for tha banking industry.

If it does, bankers fear, individual banks could have difficulty generating from profits the additional equity capital needed to comply with the stricter capital requirements due to be announced this year.

Barclays, which is the only bank with a majority foreign shareholding, could also be constrained in raising equity capital if its British parent, which has 50.5 per cent of the equity, prefers not to follow its rights and is reluctant to see its interest drop below half of its subsidiary's equity.

South Africa

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	7.8	4.9	−1.2	−3.2	5.0
Inflation (%)	13.8	15.2	14.7	12.3	11.7
Current accnt. balance (US$m)	3,507	−4,382	−3,070	329	−800
Exchange Rate: Rand vs US$	0.78	0.87	1.08	1.11	1.44
Trade weighted index	80.11	80.17	71.10	73.96	69.60
Real trade weighted index	113.07	118.10	112.68	125.00	105.32

Contrasting problems in the region

North Africa

FRANCIS GHILES

THE PROBLEMS the three North African countries face today are—at least when it comes to banking and the role of banks in their respective economies—rather contrasted. Tunisian banks today are a more diversified, inventive group of institutions than is true of their Moroccan and Algerian counterparts. In Morocco, the World Bank will soon complata a study which suggests many reforms while in neighbouring Algeria the authorities are grappling with changes which many users of the system wish could be implemented faster than at present.

The older Tunisian banks such as Société Tunisienne de Banque (STB) and Union Internationale da Banque (UIB) do not appear to have kept up with the faster pace of recent years. Until 1981, 10 commercial banks, of which only three were in private hands, dominated the banking scene.

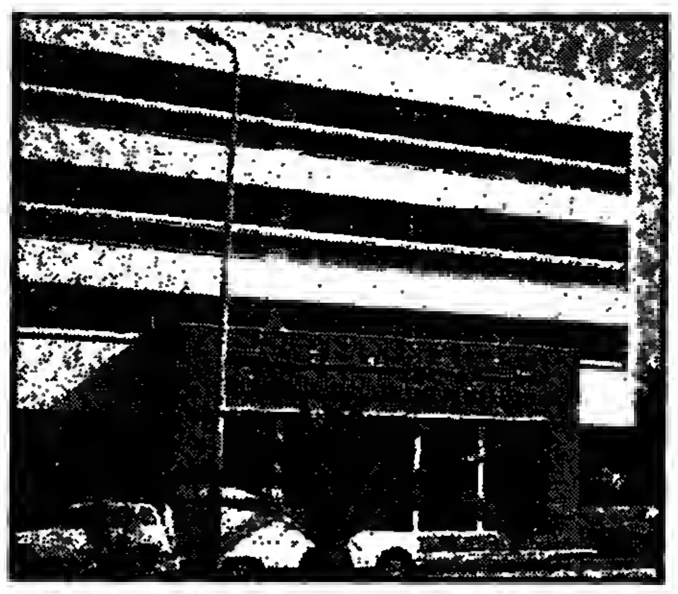
STB, by far the most important, focused its interest on the industrial sector, the Banque Nationale de Tunisie on tha farm sector while UIB was *instrumental* in *promoting* exports.

The latter today seems to be undergoing a major identity crisis while other banks have sprung up or, as Arab Tunisian Bank, had their capital reconstructed and are bringing to Tunisia the more modern ways of the western world.

Arab Tunisian Bank which has both Tunisian and foreign, notably Jordanian shareholders, is actively promoting modern commercial banking methods, often to the annoyance of the staider institutions. eManwhile a string of Tunisian Arab consortium banks cum investment companies are active in the field of industry, real estate, farming and tourist development.

The Banque Tuniso-Kowetienne run by the quick-*witted Mohammed Brigui is not* only active in industry and tourism but in a way typical of the wider interest Kuwaiti investors have shown in Tunisia where they have substantial interests in the fertiliser and *tourist* industries—*state* industries now vie with private Kuwaitis to fund worthwhile projects.

Other banks have been set up along the same 49 per cent foreign, 51 per cent Tunisian shareholding line with Saudi Arabia, Qatar, the United Arab Emirates and Algeria. The latter is presently quite busy as relations between the two countries have led to a spate of joint projects while the Societe Tuniso Sardienne de Developpement is not simply investing but also raising money in the form of a long term bond—a first in Tunisia.



Compagnie Marocaine da Credit et de Banque in Agadir, Morocco

Foreign funds account for about one-fifth—if not more—of all the investment being made in the context of the Five Year Development Plan 1982-87); their importance is thus considerable, though they sometimes show a considerable liking for prestige projects, ont something that a country like Tunisia can aasily afford.

The situation in Algeria stands in sharp contrast. Throughout the 1970s when massiva investments were made in industry and hydrocarbons, the major role of the three Algerian banks was to go abroad and raise loans. Thus Banque National d'Algerie, Banque Exterieure d'Algerie and Banque Algerienne de Developpement became well known customers in the Euromarkets.

After the decision in 1980 to halt further foreign borrowings and seeking to improve productivity *in* what *industry already* existed, the authorities decided that each bank and others since created, such as the Banque de l'Agriculture et dn Développement Rural should be allotted specific sectors. However, *reforms are painfully slow and* delays are blamed on the banks —who themselves will pass the buck to the central bank.

The new economic policy ushered in by President Chadli means that every state company ought to have its own balance sheet but that is more easily said than done. *Not* all companies are well structured financially and there is little doubt that the banks shoulder the blame for the shortcomings of the *bureaucracy.*

The role of the banks and of the powerful Ministry of Finance is much greater today than it was a few years ago that is not surprising—and greater financial orthodoxy and more vigorous appraisal of performance form part of the government credo.

Morocco for its part has a mixed private and public banking sector but the public sector is very much the dominant force. Banks such as Banque Marocaine du Commerce Extérieur play an important role as commercial banks, notably in financing foreign trade and attracting foreign investment to the Kingdom. Banque Moroccaine du Développment Economique is more of a *development than a* commercial animal and has been very active in developing sectors of the economy such as textiles.

In many ways however, all new developments have been dominated over the past 18 months by the protracted negotiations between Morocco and its foreign bankers to reschedule the Kingdom's foreign debt. While rescheduling that part of its official debt *which* fell due between September 9, 1983 and December 31, 1984 was a comparatively easy affair, and one completed over one year ago, dealing with foreign banks has been difficult.

The Kingdom refused to allow the Banque du Maroc to stand as co-obligor of the rescheduled monies but has recently accepted the compromise solutioo proposed by the banks: the agreement includes a covenant which commits the Kingdom both to remaining a member "in good standing with the IMF," if possible throughout the life of the rescheduling (eight years).

A letter from the Banque du Maroc accompanying the agreement binds the central bank to providing sufficient foreign exchange to service the debt. Renegotiating that part of the banks' debt which fall due after December 1985 should be an easier task and that will, as before, be in parallel with an *IMF* programme and tha further rescheduling of official debt.

Back from the brink

Israel

LYNNE RICHARDSON

ISRAEL'S banks are showing modest *profits* for 1984 after losses of some $220m the previous years had brought them to the brink of disaster.

The country's bank system was severely shaken by the October 1983 share collapse, when 51 per cent of the value of bank shares was wiped out. Repercussions of that episode are still being felt as the banks undergo investigation by a public commission of inquiry appointed to look into the whole affair.

Time and again, in testimony before the *commission, top* executives of the banks have stressed their claim that the banks' manipulation of their share prices was carried on with the full knowledge and tacit approval of the Government and *the Bank of Israel, the central* bank. *In* the words of one executive, "regulation" (of shares) is only one distortion in an economy full of distortions."

In the last year, in a determined effort to improve profitability, *staff* was cut by some 10 per cent, branches were closed and new *projects* shelved.

During the dark days at the end of *1983*, banks were *talking* of cutting back the burgeoning *computerisation* programmes, but Mr Dov Naveh of United Mizrahi Bank argued strongly that such moves would be counterproductive. Mr Naveh's views seem to have prevailed and all the banks have introduced new technology this year.

United Mizrahi, always the forerunner in the technology field, has more than 200 privata clients, many of them professionals, linked up to its mainframe computer, *enabling* them to get real-time information on their accounts in tha privacy of their homes via personal compnter or TV screens.

This precursor of home banking is a follow-on from UMB's original system that put mainframe access at the disposal of its corporate clients. Bank Leumi and Bank Hapoalim now *offer this* facility to their corporate clients too.

Israel Discount Bank has introduced what it calls "satellites" within some branches with electronic doors leading to a number of terminals, all activated by the client's magnetic-strip card. Offering a selection of *services,* these "satellites" are open for longer and more convenient hours than the regular branch.

Bank Leumi, the country's largest bank, has opted for an extension of the automated teller machines. Facilities in the exterior walls of its branches, which *now offer* a *printer to* supply data and a depositary for the client to leave instructions for the bank.

All the printers are on-line to the main frame and so accessible to *clients* of all branches.

Usage of Bank Hapoalim's terminals, situated in the banking halls, is to be encouraged *by a publicity campaign* stressing the reduced charges offered to the client when he interfaces with a machine rather than with a clerk, Hapoalim's "drop boxes," enable clients to pay utility bills free of charges entirely.

While streamlined services and lowered overheads have obviously benefited the Israeli Banks' profit margins this year, they are measures that may not be repeated. More long-term sources of income are the overseas operations of the banks, which for some years have contributed significantly to each bank's balance sheet.

Even the smallest-rank First International Bank of Israel has overseas offices in Britain, Switzerland and the U.S. This bank has been the real success *story* of tha Israeli banking scene. Having avoided the share manipulation scheme, F.I.B.I. was able to show a healthy profit when the bigger boys lost in 1983 and continued the growth into 1984.

The larger banks have far more extensive operations abroad, all doing well, but they may have reached the limit of their growth as funds for new ventures are now seriously curtailed.

The health of the Israeli banking system reflects that of the economy as a whole, and no one would *claim* that tha Israeli economy is healthy. Many bankers here are exasperated at the Government's failure to get its economic house in order because of the attendant negative reflection on tha country's banks.

After all, these institutions are the life-lina between Israel and loans from overseas. Foreign bankers wil be closely watching the performance of both the banks and the national economy, at least the former is trying hard.

Israel

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	2.7	2.8	1.0	1.8	1.6
Inflation (%)	131.0	116.8	120.4	145.6	373.8
Current accnt. balance (US$m)	−809	−1,428	−2,209	−2,248	−3,200
Exchange Rate: Shekels vs US$	5.12	11.43	24.27	56.21	293.21

The new era brings pitfalls and rewards

The UK

DAVID LASCELLES

"THE banking industry has had more than its fair share of restrictive legislation in recent years, and the time has come for more evident recognition and encouragement to be given to the banks as major contributors to our national prosperity."

These plaintive words from Lord Boardman, the chairman of National Westminster Bank, in his annual report last month reflect some of the frustration felt by UK banks at the way Government has hit them in the past two or three years, particularly with tax measures.

But that is only one side of the story. In other ways, UK banks stand at the threshold of what should be a highly exciting and—if they handle it well—rewarding era, what with the City Revolution and opportunities to get into new businesses and barness new technology. It would be quite wrong to sey that bankers are all despondent.

Even so, 1984 was not an easy year. The changes in capital allowances in the Budget landed banks with a £2.5bn bill for taxes which they had expected to shelter from through their leasing business. This was the equivelent of e whole year's earnings. That money bad to come out of reserves, forcing the banks out on to the capital markets to replenish those reserves. In the past 12 months, UK banks have raised over £3bn in new equity and loan stock, including a £507m rights issue from Barclays, one of the largest ever in the UK.

The Thatcher Government'a decision to make banks pay interest to their depositors net of tax rather than gross starting last month, was also a blow which deprived the banks of e key weapon in their battle with the building societies for the saver's pound (building societies bave long bad to pay interest net of tax). But the banks have risen to the cballenge by offering higb interest accounts which eppear to be stemming the flow of deposits to the societies, albeit at e higher funding cost.

That, bowever, may mark only an early skirmish in the increasingly bitter battle between the banks and the societies. In line with its policy of stimulating competition in the financial services sector, the Government is proposing to allow the bigger societies to engage in non-mortgage lending, which means they will be able to offer credit cards, current accounts with overdrafts and personal loans.

Although the scale will be limited to start with, no one doubts that in the long run, this marks the start of a major reshaping—and possible eventual merger—of the banking and building society industries.

By the end of this century, some speculate, Britain's high streets may be dominated by *half e dozen* mega-bank/building societies offering everything from money market funds to mortgages.

But others disagree. The "second tier" of UK banks *consisting of institutions like* the Scottish banks (who are consolidating their position *south of* the *border*), the *innovative* Co-operative Bank, the *shortly to be publicly floated* Trustee Savings Banks, and the Netiooal Girobank are all *aggressive* players in *the* national market who do not seem inclined to give up their independeoce *lightly*.

The recent decision by Marks & Spencer to go into the credit card markets was also an indication that the banks will face competition from new fronts.

The banks' other anxious moment last year was the near-crash of Johnson Matthey Bankers (JMB), the small banking subsidiary of the Johnson Matthey precious metals groop. In the long run, the event may be remembered less for the tiny bank's staggering losses (over half its £450m loan book) than for triggering changes in UK banking supervision.

Although a post mortem is still in progress, the affair mey lead to the Bank of England adopting a more formal and inquisitive style of aupervision; standards are being tightened up anyway in view of the City Revolution which is exposing banks to new risks by drawing them into the securities markets.

The obvious reluctance with whicb the big clearing banks agreed to ride to JMB's rescue also marks e big change in ettitudes from the secondary banking *crisis* ten years earlier when they readily stumped up billions of pounds to protect the system.

The Governor of the Bank of England *recently regretted* the gradual disappearence of the informal bonds that once held the *City together*, but they could never survive the bracing winds now whistling down its narrow streets.

If UK banks had e tough time last year, they managed to preserve their reputation as some of the world's most profitable banks. All the big clearers managed to raise their earnings by 20 per cent on average, the noteble exception being Midland Benk whicb was battered by the huge $324m losses of Crocker National Bank, its troubled Californie subsidiary, which has become an object lesson for banks everywbere on bow not to hendle an expansion into the U.S. market.

The main reason for the increase in bank profits was the snrprising and continued strength of the UK loan market whicb bas increased by 20 per cent a year since 1982. Bad loans ere also easing off now that the effects of the 1980 recession are receding into the past.

By contrast, the banks' foreign business was still patcby, mainly because of the substantial provisions that UK banks are making against Third World debt, wbere their exposure is moderately large, notably in the case of Midland and Lloyds.

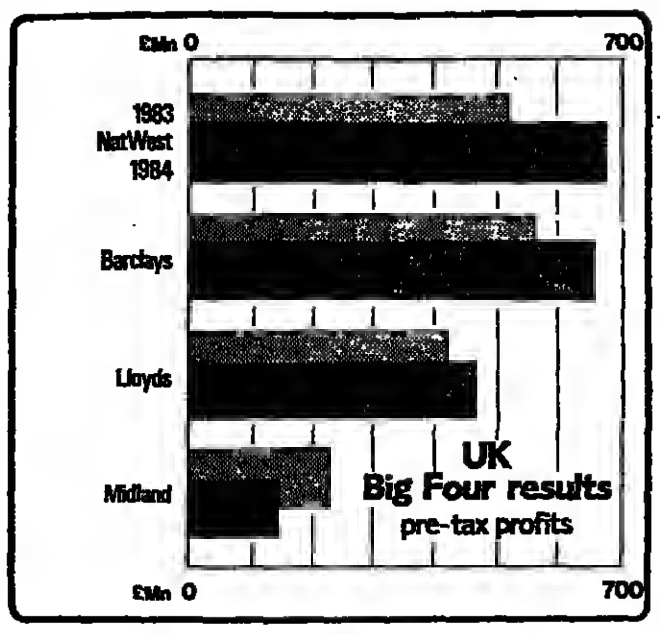
But the current banking climete obviously favours the *cautious*. NatWest, the *country's* second largest and most *conservatively run bank*, became the biggest profit-maker last year, beating its *more adventurous and larger* rival, Barclays.

Good profits will be vital in the next few years as heavy outlays loom. Aside from the costs and risks associated with their entry into the City Revolution, the banks bave a big investment programme in new technology.

Among their more ambitious plens is a nationwide cashless shopping system which they recently agreed to set up with the *country's leading retailing* companies. Called Electronic Funds Transfer at Point of Sale (EFTPOS), it will *start* with a pilot scheme in the next two years, leading eventually to the *installation* of 250,000 terminals in shops with which customers will be able to pay for their goods simply by wiping a card through a slot.

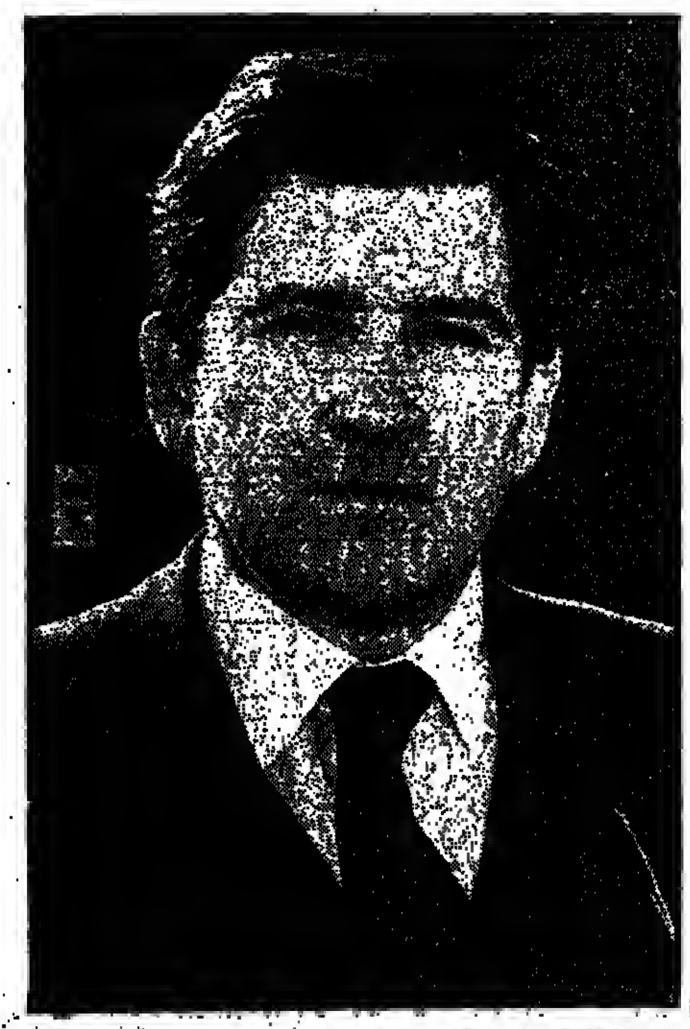
The scheme should be the *first of its kind in a major* country and — it is hoped — should produce big cost *savings* for *banks who have* been fighting e losing battle against an ever-rising tide of *paper, cheques and credit card* slips.

In fact, their own projections *suggest* the returns may not come until the next century, wbich is why they bave *embarked on* the *scheme* cautiously and with some misgivings. But in the long run they *see no* alternative.



U.K.

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	−2.1	−1.1	1.9	3.3	2.1
Inflation (%)	18.0	11.9	8.6	4.6	5.0
Current accnt. balance (US$m)	8,690	15.068	8,365	3,419	51
Exchange Rate: £ sterling vs US$ ...	0.43	0.49	0.57	0.66	0.75
Trade weighted index	74.43	75.94	73.39	69.62	67.74
Real trade weighted index	115.23	116.43	112.53	106.60	103.09



Tough at the top for Lord Camoys. As chief executive designate of Barclays de Zoete Wedd (BZW) he will bring together one of the largest mergers caused by the City revolution

PROFILE: LORD CAMOYS

Chief welder at BZW

BY DAVID LASCELLES

LORD CAMOYS has one of the tougher jobs in UK banking at the moment. As chief executive designate of Barclays Bank's new securities subsidiary, the 45-year-old merchant banker is responsible for welding together one of the largest mergers spawned by the City revolution.

Barclays, the UK's biggest bank, is buying 75 per cent *stakes in de Zoete and Bevan*, a leading stockbroking firm, and Wedd Durlacher, one of *the two largest jobbing firms* on the London Stock Exchange. The firms are to be combined *with Barclays* Merchant Bank to make what Barclays claims will be a *major force in the international* securities business called Barclays de Zoete Wedd (BZW).

The challenge facing Lord Camoys, whose career has taken him through Rothschilds and American Express Bank, is to give a shape and direction to this new entity, which will employ more than 1,500 people, many of them unaccustomed to working for a big group, let alone one combining so many different functions. Then he must earn a profit in a marketplace whose size and character people can at tho moment only guess at.

Barclays has been quieter than most about its plans while potential rivals like County Bank (which is masterminding NatWest's securities venture) and Mercury Securities (the parent of S. G. Warburg) *have published blueprints* of their new organisations. This has bred a suspicion that Barclays is making heavy weather of the merger.

Lord Camoys denies this. "We're motoring along," he says, adding that many of the *big decisions have* already been taken and should be unveiled this summer. He dismisses talk of defections and the "cultural" problems of uniting brokers, jobbers and bankers.

The new group will be *involved in banking, securities* trading, corporate finance and fund management (administering ebout £8bn of funds), a mix similar to the other banks'.

Barclays has said that BZW will be leunched with about *£150m* in net assets. In practice, the figure may well be a lot higher than that—over *£200m*, including the value brought to the business by de Zoete's and Wedd's as well as Barclays Merchant Bank and the direct investment made in it by Barclays Bank.

This means *it* will be smaller than Mercury which will have n value of some £350m but *this figure includes* Mercury's traditional banking business of which there will *be less at BZW because it will* leave banking largely to its parent and devote more of its *capital* to *the securities side*. So in terms of sheer trading muscle, the two groups could *be closely matched*.

Lord Camoys intends to pull his group together by moving *all* three *firms into a new* building beside the Thames where they will work alongside each *other, and* be motivated by similar bonus schemes.

Challenging the widely held City view that fierce competition in the new markets will lead to a lot of spilt blood, at least in the early stages, Lord Camoys believes BZW will be profitable from the start, and will match the financial *performance* of the big U.S. investment houses.

"Even on a gloomy view of the markets, we are looking for profits in the first 12 months. I don't accept that we necessarily havo to lose money."

Results will inevitably be volatile, but post-tax returns on capital of 40 per cent are envisaged in good years. Lord Camoys also expects to make money in the market for government securities where the competition may be fiercest of all. But Wedds is already one of the largest jobbers of gilt-edged stock, and BZW intends to capitalise its new gilts dealing operation et around £30m-£40m, which will put it among the leaders.

Profile: Walter Seipp

No man to trifle with

By Jonathan Carr

Dr Walter Seipp

THEY CALL him "Walter the Tank!" It's no poor description of a man not easily deflected from his aim and whose (verbal) salvos tend to attract startled attention over a wide area.

Dr Walter Seipp, chief executive of Commerzbank, smallest of the "big three" German banks after Deutsche and Dresdner, is definitely not a person to trifle with.

Take his public proposal a few months ago that domestic "offshore" banking centres be set up to boost West Germany's flagging role as a turntable for international finance.

In the conservative German context, that suggestion had something of the shock effect of a Salvation Army official pleading the virtues of drink.

In the meantime, however, the Bundesbank has pressed for greater capital market de-regulation and given its assent (if hardly its blessing) to financial novelties like variable interest rate instruments.

In that context Seipp's idea seems much less far fetched—even if it still goes beyond what the central bank, and a lot of his banker colleagues, are ready to countenance. Perhaps a year from now things will look different!

Herr Seipp welcomes the Bundesbank's green light for greater financial innovation, but he still feels the key improvement will only come with creation of offshore centres, freed from the central bank's strict minimum reserve requirements.

He pooh-pooh's the objection that the Bundesbank's control of money supply might be undermined if his scheme were adopted. Other countries have been able to deal with that problem, he notes. Why not Germany?

Herr Seipp, now aged 59, is something of an expert on the topic. For years he was the driving force behind Westdeutsche Landesbank's buoyant Eurobond business, moving on from there to take over the ailing Commerzbank in 1981.

The appointment presented German financial observers with a fascinating riddle. Would "Walter the tank" propel Commerzbank back to the heights of steady profitability, or would he be engulfed in the morass.

In the event, Seipp got his way (as he usually does). From the very start he showed he was boss, giving a clear lead—and encouragement—to middle management in a way which had been lacking before.

There was less axing of top management than had widely been feared—but Seipp nonetheless made crystal clear he was "chief executive" not the "primus inter pares" which some other German banks have at the top to represent the views of the managing board to the outside world.

Not the least of the Seipp reforms was a new monitoring system to avoid the grave mismatching of lending and funding which had previously bedevilled Commerzbank's earnings. Rewards were not slow in coming: the bank resumed dividend payments for 1983, after omitting them for three consecutive years.

Moreover, in 1984 the group was able to record an operating profit of more than DM 1bn for the second year in a row, strengthen reserves and risk provision and display a balance sheet structure far more solid than that of five years ago.

True, the last few years have been good ones for virtually all German banks—not just Commerzbank. And Commerzbank still has a tough road ahead, not least to match its capital to credit volume in accord with the tough new provisions of the revised Banking Act.

But it would be churlish not to give Walter Seipp the credit for much of the strategy which has turned Commerzbank around. As well as his talent for public utterance, Seipp is something of an ace at chess. "The tank" may shock—but it is not erratic.

Challenge on several fronts

West Germany

JONATHAN CARR

THE WEST GERMAN banks are having to face new challenges on several fronts simultaneously. They are being squeezed by lawmakers under the tough provisions of the revised Banking Act which is taking effect this year; they are up against new domestic and foreign competitors muscling in on what had long seemed to be the German banks' private patch.

And, not least, they face the cost in funds and personnel of the electronic banking revolution.

But against all that the banks have big new opportunities too, they have had years of buoyant profits and are well podded against risk at home and abroad.

The single most dramatic illustration of the new challenge and chances facing the banks this year has come from the Bundesbank, the central bank.

Not only has the Bundesbank decided that foreign banks resident in West Germany be allowed (at long last) to lead manage foreign D-mark bond issues, a lucrative activity denied them so far. It has also dropped its objections to at least some innovative financial instruments—such as variable interest rates and zero bonds—which it has frowned on so far.

This is far from being a complete de-regulation of the German capital market. For example, Certificates of Deposit (CD's) are still not acceptable to the Bundesbank for legal and technical reasons. But the steps announced this spring nonetheless go further than most people expected, even at the start of this year.

One reason for the central bank's move is the fear that, without such a step, West Germany — notably Frankfurt — would fall ever further behind London, New York and Tokyo as a world financial centre.

The decision last year of Deutsche Bank, the country's biggest commercial bank, to transfer its non D-mark Euro-business to London from Frankfurt was treated as a vivid warning in this respect. But behind this fear lies a changed attitude on the Bundesbank's part to the role of the D-mark.

A few years ago the central bank's key concern was that the D-mark would gain too big a role as a world reserve currency, imposing commitments (and bringing ever bigger capital flow problems) hard to fulfil.

In the meantime, with the renaissance of the dollar, the gradual rise of the yen and stabilisation of sterling, the boot is on the other foot. The Germans now want to steady the D-mark as an attractive currency in a vital, (more) de-regulated domestic market.

The German banks are in the main delighted that the Bundesbank is taking a somewhat more relaxed attitude to financial innovation—but are also well aware that competition with foreign banks at home is going to become steadily tougher.

They successfully pressed the central bank to try to ensure that reciprocity is guaranteed, meaning that German banks abroad will receive much the same benefits as those granted to foreign banks resident in Germany.

One result is that, for the time being, Japanese banks are being excluded from the Bundesbank's latest de-regulation move (pending an understanding between Germany and Japan on opening up the Tokyo market).

But the squeeze from the foreign banks is unavoidable all the same. The big Swiss banks, for example, are starting to move into West Germany after a long period of self-denial. But the Germans in this case can hardly complain; for some years they have been establishing themselves on the Swiss market.

Alongside this foreign challenge, the German banks are facing new domestic rivals too. Competition in this extraordinarily heavy banked (some would say "over-banked") country has long been intense—for example between the commercial banks, private banks, savings banks and the co-operatives.

But now major retail outfits and insurance companies are eyeing the "financial services" business in a way which makes the banks feel decidely uncomfortable.

Again the banks cannot complain since several (led by the Deutsche) started the ball rolling by combining savings plan offers to their customers with insurance deals. The banks may, however, be going to get more than they bargained for.

Yet another challenge (and one the banks insist is decidely unfair) is offered by the Bundespost, the Federal Postal Service, which is increasingly moving into banking-like business too.

The banks say they are ready for all reasonable competition—but not from an institution which is endowed with sweeping monopoly powers.

One thing is certain. The private German customer has cause to be flattered by this avalanche of institutions competing for his or her business. Decades ago the big German banks concentrated the majority of their attention on corporate clients; today the individual customer side of the business is at least as important.

Hence the drive to provide better and faster financial services electronically, and to try to combine that with more "in depth" customer advice as the computer relieves bank staff of more commonplace work.

All these changes are now having to be faced in what is, for the banks, a tougher legal context. Under the revised Banking Act, the banks have to meet stricter capital-to-lending ratios (applying to group, not just parent bank, figures including foreign subsidiaries); and they face—among other things—tougher limits for individual large-scale loans.

The government has allowed the banks lengthy transitional periods (six years in the case of capital-lending ratios for example) before applying the new regulations in full.

Nonetheless, it is going to mean a struggle for some banks to meet the legal target, by keeping a watchful eye on credit volume while boosting capital. It would have been a lot more difficult if the banks had not just been through several years of record profits which allowed them to bolster capital and markedly strengthen their risk provision.

Last year many banks (including the "big three" Deutsche, Dresdner and Commerzbank) virtually equalled their record operating profit results of 1983. But since business volume rose quite strongly last year, the profits result can be said not to have had quite the same high quality as the previous one.

None the less, all the major banks again stashed away more big sums for risk provision (on balance, more for foreign risk, less for domestic risk in view of the general economic upturn at home).

The published figures of the banks give only a very partial guide to the full risk provision made. But even on the basis of the figures, which are issued, it is clear that the German banks are very high on the international list of those institutes which have padded themselves well for a resurgence of the (currently somewhat dormant) debt crisis.

West Germany

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.8	0.0	−1.0	1.0	2.6
Inflation (%)	5.4	6.3	5.3	3.3	2.4
Current accnt. balance (US$m)	−16,000	−5,720	3,410	4,000	6,300
Exchange Rate: D. Mark vs US$	1.82	2.26	[illegible]		
Trade weighted index	152.68	147.64	156.88	107.37	169.80
Real trade weighted index	102.59	96.09	99.56	100.86	96.83

Suffering from surfeit of branches

Spain

DAVID WHITE

"SPAIN IS not different," proclaim the billboard advertisements. The campaign, bearing the opposite message from Spain's tourism slogan of the 1960s, is run jointly by three international bankcard systems—recent arrivals on a rapidly evolving banking scene.

EEC entry, set for the beginning of next year, comes after a period of hectic changes in Spanish banking and promises a few more. As the opening up of the sector goes into its final stages, further questions will be raised about the structure of the country's commercial banks.

Some believe that the real merger wave has still to begin—in the search both for size and for economies. The sector, which grew prodigiously when banking was still a very unsophisticated business in Spain, now suffers notoriously from a surfeit of branches and staff that hampers its competitivity.

Automation has made big strides recently, with more generalised use of computers and cash-dispensers, and one Spanish bank—Santander—can claim to be a pioneer in Europe of "home-banking" services. The implications of new technologies have still to be fully digested.

Winds of change have been blowing for the last six years from two directions, and have yet to blow themselves out. The first is the arrival of foreign banks under liberalised rules. There are now three dozen in Spain, several of which, besides the original four which were around from pre-restriction days, have been able to establish retail banking networks.

This has been possible only through buying up ailing Spanish banks, or in the recent case of NatWest through linking up with a Spanish partner. Over a seven-year transition period banks from other EEC countries will now become free to establish branches and to take customer deposits in the same ways as Spanish banks.

Spain's sober banking institutions have had to keep up with developments spearheaded by the foreign banks — new financial instruments and services. In the financial services sector, the competition has been increased by offshoots of the powerful regional savings banks venturing outside their home territories.

Spanish bankers are, on the surface at least, optimistic that they can defend their market after EEC entry. They argue that almost all the major banks are now in Spain and that there will be few newcomers. The foreign banks have been increasing their role: accounting, for instance, for almost 11 per cent of bank lending activity at the end of last year, compared with about 8.5 per cent in late 1983.

The other major change since 1978 has been Spain's own banking crisis, which has brought down almost half the banks that were in existence at that date. The crisis, affecting over 50 banks (most of them re-floated under new owners after receiving state aid), has forced changes in the outlook of many banks, particularly as to their equity holdings, has concentrated power in the hands of big groups and has helped to promote a new commercial banking ethos.

What used to be the country's two leading industrial banks — Banco Urquijo and Banco Union, now merged as part of the Hispano Americano Group—are going through their second rescue. The plan to mop up some $300m worth of dud assets puts the main burden on the private banking sector, which offered to intervene in order to limit the role played by the Bank of Spain.

This unprecedented scheme reflects how concerned the banks are about the effective "nationalisation" of the sector through the state's growing influence. The Government's repeated interventions in the banking crisis, the new and tighter rules imposed on banks' operations, and the high level of bank funds tied down by the Government in compulsory deposits and investments have combined to give the banks a real complex about their power, vis-a-vis the state.

Spain

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.5	0.2	1.2	2.3	2.5
Inflation (%)	15.6	14.6	14.4	12.2	11.3
Current accnt. balance (US$m)	−5,173	−4,989	−4,240	−2,480	2,000
Exchange Rate: Pesetas vs US$	71.70	92.31	109.86	143.43	160.76
Trade weighted index	84.28	76.80	76.34	68.51	69.31
Real trade weighted index	107.79	101.57	101.97	93.57	94.78

Competitive effect

Portugal

DIANA SMITH

FOR EIGHT years Portuguese governments have gritted their teeth and tried to convince themselves, and the population, that if they waited long enough and were patient enough their attempts to join the European Community would pay off.

It finally happened at the end of March. Negotiations were successfully completed, accession should come on January 1 1986 and Sr Mario Soares' coalition government is racing against the clock to begin adjustments away from two generations of sluggishly-centralised or oligopoly-dominated financial management towards more liberal policies and practices.

Banking has already benefited from alterations that began in 1981 with authorisation for investment and leasing companies to operate, continued in early 1984 when legislation was changed to permit foreign and privately-owned Portuguese banks to apply for licences, and multiplied with the competitive effects of these new arrivals on a once-sleepy scene.

So far, three investment and eight leasing companies with a strong dose of foreign capital are competing to offer diverse and sophisticated financing instruments to large, small and medium companies.

Two American banks, Manufacturers Hanover Trust and Chase Manhattan, have joined the older-established Lloyds, Credit Franco-Portugais (Credit Lyonnais) and Banco do Brasil in full operations. Nine foreign banks, one American, one Middle Eastern and seven European are awaiting licences.

The first Portuguese investment bank, Banco Portugues de Investimentos (BPI) has emerged, a result of the conversion of SPI, the country's pioneering investment company, into a bank.

In a class of its own is CISF (Companhia de Investimentos e Servicos Financeiros), a financial services company in which Lloyds and Sumitomo hold a minority with the majority controlled by private Portuguese investors or insurance companies and banks. It started up last May, is doing a roaring trade in public and private bond issues, and is nudging clients on to a stock exchange that has begun to awaken after a coma induced by sweeping revolutionary nationalisations in 1975.

Portugal's state-owned enterprises have found bond issues a highly useful form of financing— in 1984, major enterprises like Petrogal, Electricidade de Portugal, and the Post Office/Telephone Company contributed heavily to bond issues of Es 40.7bn ($242m) on the domestic market.

The stock and bond markets and indirectly, the banks, investment and financial services companies who will benefit from more diverse portfolios, are destined to receive a fillip from tax incentives due to come into force soon.

The incentives include capital tax exemptions for investment funds (a novelty in Portugal), 50 per cent reduction in capital tax on dividends of companies quoted on the Stock Exchange, deduction from personal income tax of up to Es 250,000 a year ($1,500) investment in shares as long as these are held for three years, and exemption from stamp duty on capital increases of companies whose shares are quoted on the market.

The real impact of these measures may not be felt for a year or so.

Another important change has been brought about by competitive market forces. These are making nationalised Portuguese commercial banks offer interest at the end not beginning of short-term loans—a welcome breach of a practice that has burdened companies needing short-term stock financing.

In all, Portuguese banking has at last begun to move more nimbly.

Portugal

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	4.2	0.8	3.2	−0.1	−1.1
Inflation (%)	16.6	20.0	22.7	25.1	28.9
Current accnt. balance (US$m)	−1,064	−2,605	−3,250	−1,005	−700
Exchange Rate: Escudos vs US$	50.06	61.55	79.47	110.78	114.39
Trade weighted index	47.52	45.73	40.00	32.08	26.97
Real trade weighted index	92.41	97.47	100.58	87.95	88.22

Greece

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.7	−0.3	−0.1	0.3	2.2
Inflation (%)	24.9	24.5	21.0	20.2	18.4
Current accnt. balance (US$m)	−2,209	−2,408	−1,892	−1,878	−2,000
Exchange Rate: Drachmas vs US$	42.62	55.41	66.80	88.06	112.72
Trade weighted index	58.50	54.26	50.66	41.89	36.54
Real trade weighted index	102.02	107.92	108.50	101.85	100.82

New spirit needed

Greece

ANDRIANA IERODIACONOU

"WE'RE PASSING measures to deregulate the banking system all right. But the problem is out there—nothing is happening. It seems we have to educate banks to the new spirit," one Bank of Greece official remarked recently.

While translation into everyday banking practice may be proving frustratingly slow, on paper at least Greece's central bank has begun to take significant steps in the direction of freeing the country's banking system—about 75 per cent of which is state controlled, private Greek and foreign banks making up the balance—from the straitjacket of a strict and intricate system of credit controls which effectively fixed banks' lending portfolios for them in aid of channelling funds to preferred sectors of the economy.

Mr Dimitris Halikas, the liberal-minded governor of the Bank of Greece, and Mr Gerasimos Arsenis, the economy and finance minister, have been prime movers of the deregulation effort which began to gather momentum in 1983. One of the first steps taken was the unification of the rates of interest (numbering over 20) then in use—all set by the central bank—to four basic rates.

Last month the Bank of Greece completely liberated housing loan interest rates. According to central bank officials, consumer loans will probably likewise be freed by the end of this year, followed by ordinary business loans. The aim is for a considerable range of rates to "reflect genuine market conditions" by 1986.

In the area of who-gets-how-much money, though, it is still largely the say of the Bank of Greece that counts. The extreme past practice of taking individual decisions on virtually each and every loan application case has given way to general rules for four basic categories of lending, within which the banks can select their own customers. The categories are: working capital for industry, long-term loans for industrial investments, loans for agriculture and small and medium-size businesses (the backbone of the Greek economy), and housing loans.

Quantitative credit controls on various types of loan have been abolished altogether for specialised credit institutions such as the National Mortgage Bank and the Agricultural Bank, with the central bank now only fixing the rate of total credit expansion.

The effort to loosen credit restrictions is coupled with a drive to initiate both the banks and the Greek public into more sophisticated banking practices. Cheque accounts are being encouraged along with consumer credit in the form of overdrafts—a novelty, as is the use of cheques or credit cards in everyday transactions in what is still largely a cash society.

On another plane, the Bank of Greece is taking the first steps towards trying to develop the country's embryonic money market—marketable Treasury bills are to be issued soon as a new instrument for savers.

Greek private bankers say they did "well" in 1984 working with nominal savings and fixed deposit rates ranging from 15 per cent to 20 per cent and lending rates of 14 per cent to 21.5 per cent against an official annual inflation rate of approximately 18 per cent.

They say, however, that they would have done even better with lower deposit rates which would still have allowed the Government to fulfil its liquidity targets. Deposits grew by over 28 per cent in 1984, reaching 100bn drachmas over the target.

Foreign bankers are harder hitting, saying that interest rates are unacceptably out of kilter with market conditions, while once profitable shipping and foreign exchange loans are caught in the vice of the economic recession and the Socialist Government's volatile economic policy.

[redacted]

More diversified

Luxembourg

PAUL CHEESERIGHT

THE GRAND DUCHY'S banking community earned over LuxFr5bn in commission fees last year. The figure is significant only in that it is more than double earnings of that type in 1980. It shows the increasing stress being placed on private banking.

It was in 1980-81 that most banks entered what Mr Pierre Jeans, director general of the Luxembourg Monetary Institute, calls a period of "critical reflection." Many came to the same conclusion.

"The majority jumped on the bus of developing private banking. But that builds up through reputation. It cannot have immediate results," noted Mr Jeans.

This shift in emphasis from wholesale banking, and especially Euromarkets business, is changing the nature of Luxembourg as a financial centre, making it more diversified. While the 1970s was the decade of rapid bank establishment in Luxembourg, the 1980s looks like being the decade of the investment funds.

The number of funds established in the Grand Duchy fell from 102 at the end of 1970-74 at the end of 1979, but in the following years the number started to edge up, reaching 99 in 1983 and then 132 by the end of last year.

Now applications are dropping daily at the Monetary Institute, the regulatory authority for both banks and funds. There are likely to be 180 by the end of this year.

This movement is running parallel to a deliberate policy by the banks to attract more stable money from depositors. They have had some success. Last year the process of restructuring the banks' refinacing continued.

During the last wholly happy year for wholesale banking, 1979, the relationship between inter-bank financing and non-bank financing was eight to one. Last year the banks brought this down to four to one.

But none of this is to suggest that banks in Luexbourg are ignoring what they were first best known for—the Euromarkets business. There was evidence in the second half of last year that activity was picking up, but this certainly bad less to do with Luxembourg as such than with the general change in economic circumstances.

Luxembourg was able to pick up its share of the business. But "its share" are the crucial words. The rise of Luxembourg in the 1970s stalled as banks and markets became more internationalised. Luxembourg is now competing with centres like Singapore, Bahrain and New York's International Banking Facilities.

Banks in the Grand Duchy continue to specialise in lending to major companies and institutions in the industrialised world but since the crisis bit, major borrowers from the market have become very liquid, leading to very limited credit growth in two areas keen in the past to tap the Luxembourg market—Germany and Scandinavia.

Bank profits, meanwhile, have flattened out. The letest figures show that after an explosion in the early 1980s, they peaked at LuxFr 68.7bn in 1983 and then last year declined slightly to LuxFr 67.9bn.

Those figures are taken before provisions and suggest that earnings on that basis are providing a return slightly higher than 1 per cent on total assets. In 1980, by contrast, the return was 0.5 per cent.

The growth of assets in real terms adjusted for interest rates has continued, but in the future there seems little chance of the heady advance which took plcae between 1972 and 1981, when growth was anything between 15.6 and 60.9 per cent a year. In 1983 assets growth was 10.1 per cent and last year finished at 11.2 per cent at a total of LuxFr 7,331bn.

Manufacturers Hanover branch in the Grand Duchy

Clearly the contrasting speeds have something to do with the different rates of establishment. At the end of March, the number of banks in Luxembourg was the highest ever at 117, but the figure has been just under that for three years. "I would see that as a cruising level," observed Mr Jaans.

The strongest foreign representation is from Germany with 28 banks, followed by Scandinavia with 16.

There have been suggestions that expansion is unlikely because the Grand Duchy has put itself at a disadvantage by its capital requirement regulation—broadly that branches of foreign banks should hold capital equivalent to 3 per cent of liabilities.

But Mr Jaans doubts the need for change, noting that the banks are generally comfortably above 3 per cent gearing. The statistical average, excluding country risk provisions is 3.7 per cent. If part of the funds for country risk provision are added in then, said Mr Jaans gearing is 4-4.5 per cent.

The main recent regulatory change, however, came into force at the beginning of the year. It is the single debtor rule and specifies that a bank should not expose itself to a single debtor for an amount exceeding 50 per cent of its own funds in its first five years. After that the limit is 30 per cent. But international banks, supervised elsewhere on a consolidated basis can be made exceptions. Decisions are being taken bank by bank.

Luxembourg

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	0.3	3.2	2.1	−0.5	2.0
Inflation (%)	6.3	8.1	9.4	8.7	5.6
Current accnt. balance (US$m)	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange Rate: Francs vs US$	29.24	37.13	45.69	51.13	57.78

Squeezed from several sides

France

DAVID MARSH

AMPLY illustrating less than luxuriant profitability at leading French banks, the postage bill at Crédit Lyonnais, the country's second largest nationalised institution, came to FFr 300m last year—or only slightly less than its declared net profits (after provisions of FFr 4.9bn) of FFr 360m.

The largely nationalised French banking sector is in the uncomfortable position of being squeezed from several sides. The Government is pressing for action to tighten up bank costs. The aim is to lower their over-large margins which basically constitute a supplementary source of indirect taxation.

Supervisors — in France and internationally — want the banks to plough more of their slender profits into improving their capital ratios, which are generally low by international standards.

With pressure on the banks to bail out companies in difficulties now considerably below the level of two years ago, these two objectives might be just about reconcilable. But the attempt to balance opposing demands has been made practically impossible by the fact that margins—and profits—are almost certain to come under further pressure over the next 12 months as French interest rates pursue their gradual decline.

To face up to the problems of low profitability banks are trying to diversify out of traditional commercial banking business where rewards are in indirect proportion to the increasing competition.

They are brushing up their investment banking activities—responding to, and at the same time pushing ahead, slow moves to deregulate the French financial markets, which have enjoyed an unprecedented increase in importance over the last three years.

Competition between the banks to bring new companies to the equity markets, for instance, has never been so high. About 50 companies—including some large groups which should by rights have made their entry to the bourse several years ago—have floted 10 per cent or more of their capital on the "second market" of the stock exchange since it was opened just over two years ago. An increasing number of high technology launches have been announced in recent months.

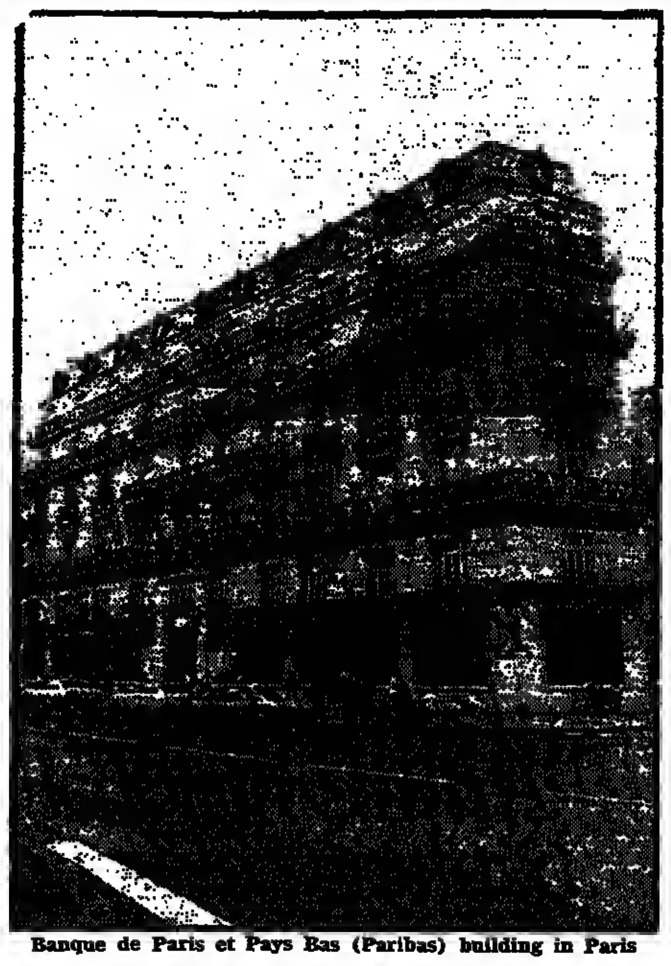
Demarcation lines between the banks and stockbrokers, who benefit from a unique monopoly position in France, are gradually being broken down. Banks and brokers will eventually be allowed to trade as equal participants on the futures market in bonds which is to be set up this autumn.

The Government has also made moves to lower commissions charged by stockbrokers on dealing with banks, and allowed commissions to be negotiable after a certain level. The measures could prelude further steps to weaken stockbrokers' cosy cartel, and are already prompting talks of strategic alliances among French banks and brokers in line with the frenzied moves that have been going on in London and New York.

Banks are also becoming more active in offering a greater range of financial products — including insurance and sophisticated savings schemes — to their retail clients.

The most visible sign of changes in the rigid pattern of French financial relationships has come from the entry of two (albeit state-owned) insurance groups — Union des Assurances de Paris and Groupe des Assurances Nationales — into the capital of, respectively, the Banque Worms and Crédit Industriel et Commercial banking groops.

The Government is encouraging innovation in the banks' financial departments in line with the Socialists' new-found spirit of economic liberalism.



Banque de Paris et Pays Bas (Paribas) building in Paris

An increasing number of banks and financial institutions are launching into venture capital activities, now being fostered by broadening tax incentives. This follows on from the operations of innovation-financing companies (most of them with bank participation) which have been in business for up to a decade, and have rarely strayed into the limelight.

The banks are also in the forefront of moves to bring the information technology revolution into shops and homes through cashless retail payment systems and videotex "armchair banking" screens. Both in the "smart card" technology for point of sale transections, now being launched on a nationwide scale, and in home banking using the telecommunications authority's Minitel screens, French banks claim a world lead.

Despite these edvances—and their impressive position in the world wholesale banking scene, where the French have the third largest international network after the U.S. and British institutions — French banks will not really come of age in a deregulated financial world until they are shorn of the protection in key fields given by exchange controls.

The Government has so far taken some relatively insignificant moves to ease controls. In spite of the relatively comfortable position of the franc on the exchange markets, it will take considerable boldness to take any more dramatic steps less than a year away from next year's legislative elections.

France

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.0	0.2	2.0	0.7	2.0
Inflation (%)	13.8	13.4	11.8	9.6	7.6
Current accnt. balance (US$m)	−4,208	−4,809	−12,081	−4,904	−200
Exchange Rate: Franc vs US$	4.23	5.43	6.57	7.62	8.74
Trade weighted index	103.89	97.26	90.89	87.44	85.79
Real trade weighted index	92.83	86.88	83.17	83.45	86.01

Profile: Jacques Mayoux

A more thrusting image

By David Marsh

A CLUSTER of garishly-coloured motorcycles drawn up amid the Byzantine surroundings of Société Générale's railway station-like central banking ball in Paris gives a clue to what M Jacques Mayoux is up to. Chairman of France's third-largest nationalised bank since 1982, M Mayoux, aged 60, is trying to shake up the image of an institution which has perhaps had the reputation of the most old-ladyish of the Big Three.

M Mayoux, of pronouncedly hawkish views on the need for tough solutions over restructuring French industry, is acerbic, quick-talking and makes a point of not suffering fools gladly.

He drew dissent from sections of the Socialist Party in the early life of the Mitterrand Administration, and at one stage last year was rumoured to be on the list of nationalised bank chiefs facing non-renewal of their mandates.

Now after the pronounced swing towards economic orthodoxy in the Government's policies, his position seems secure. And should the right return to power after next year's parliamentary elections, M Mayoux would be one of the most likely public sector chairmen to stay on.

M Mayoux's economic liberalism in fact might be a little hard for self-proclaimed right-wing liberals (who hardly lived up to that philosophy when the Giscard administration was in power) to stomach.

He is a keen watcher of government manoeuvres to cloud over the effect of heavy public borrowing on the money supply. He believes that the true deregulation of the French financial markets could best be accomplished by a thoroughgoing break-up of the monolithic Caisse des Depots financial organisation — an institution which has served as the Government's financing arm since Napoleon's time.

The beginnings of a competitive environment

Italy

ALAN FRIEDMAN

Ottavio Salamone

Rome office of the Bank of Italy

MOST OF the leading banks in Italy's 90 per cent state-controlled banking system reported hefty increases in profits last year. Meanwhile, measures designed to relax control over the growth of credit are gradually beginning to create more competition among the institutions.

For reasons built into the Italian financial system, however, this does not mean that Italian banks are about to introduce U.S.-style competition. Many remain large and heavily bureaucratic institutions, constrained by reserve requirements, a watchful central bank monetary policy and at times an oligopolistic mentality which has yet to alter radically.

Still, there are signs of change in Italian banking, among them modifications of the regulatory environment, a desire to develop a more sophisticated financial market and a strong commitment to new technology, both at the retail banking level and for back-office operations.

At the regulatory level the Bank of Italy, a highly regarded Central Bank both at home and abroad, has introduced the following changes over the past 18 months:

● After rigid control since the 1970s, the summer of 1983 and winter of 1983-84 saw a relaxation of constraints on individual bank lending, both in terms of volume and type of loans.

● Banks have been pressed to produce consolidated accounts with more information.

● Greater supervision over foreign branch operations of Italian banks have been seen, reflecting at least in part the nightmare of the 1982 Banco Ambrosiano failure.

● A small, but significant relaxation of the right of banks to move branches within the 1,500 areas into which the Central Bank divides the Italian banking market has occurred, but banks still need permission to open a branch.

● There has been a clamping down on the previously widespread practice of "window-dressing" year-end accounts to inflate balance sheets.

● Tacit approval has been given to the way Italian banks set their prime rate, thus making for slightly different levels among the big banks.

These measures, combined with a certain degree of innovation on the part of banks, is pointing the way toward a freer and more developed Italian market. But as many bankers admit, it will be a few years before Italy achieves the financial sophistication of the U.S.

A continuing constraint on the system is the Government's annual U.S.$50bn public sector deficit, which keeps nominal interest rates well above the level of other industrialised countries and siphons off savings into high-yielding and tax-free treasury bonds. But the Craxi Government is battling to contain public expenditure and is committed to curbing labour costs through its cuts in the scala mobile wage indexation system, even if this is a political hot potato.

While there is frequent talk of creating Italian merchant banks, very few real merchant banks (in the Anglo-Saxon sense of the term) exist. Mediobanca, one of the few genuine such institutions, is a state-controlled merchant bank now engaged in a power struggle with politicians over a proposal to allow the Lazard Freres Group to take a 20 per cent stake.

Without a doubt the most exciting new development in Italian finance has been the recent and amazingly rapid growth of newly authorised unit trusts. Some 44 trusts are being authorised in all, many of them administrated by the banks. The 23 operating unit trusts have already attracted more than L5,000bn since starting up last summer.

The unit trusts, which are designed to attract small investors, provide tax-free capital gains and may well be able to outperform the tax free Treasury bonds, which pay 13.5 to 14.5 per cent.

Dr Ernesto Ugolini, managing director of Cariplo (Italy's largest savings bank which claims to be the largest such institution in the world with total assets of L46,268bn, says much will depend upon the new unit trusts being carefully managed.

"If these funds are managed properly then they will be a key factor in our financial system towards the end of this decade," says Dr Ugolini.

Dr Ottavio Salamone, director general of the Banco di Sicilia, agrees that the new unit trusts could provide a major impetus to the modernisation of Italy's financial system, but warns that investors should be reminded that the funds are not risk-free.

At a more pedestrian level, bankers say that competition is beginning to appear in the way banks go after quality corporate clients.

Dr Ugolini points out that until the relaxation of credit controls in 1983, competition was "suppressed." Now, he says his banks and others are "approaching our best clients and telling them that funds are available, even at one per cent less than what the other bank is charging."

Of course the cost of loans remains high, still in some cases above 20 per cent. The prime rate last month was between 16.5 and 17 per cent, while the average cost of loans to premium borrowers ranged between 15.5 and 18 per cent.

The average deposit rate, meanwhile, was closer to 12 per cent. But bankers point out that the margin is not as huge as it seems when one considers that the Central Bank requires a deposit equivalent to 25 per cent of new savings, which pays banks only 5.5 per cent interest and adds at least 2.5 per cent to the cost of what they pay customers.

At the retail banking level, Italian customers now enjoy a national network of cash dispensers second to no other system in Europe — customers may use their Bancomat card to withdraw cash in virtually every part of Italy and at almost any bank. Likewise, the Bank of Italy is supporting moves toward further automation among the banks.

Thus the Italian banking system, at first glance backward in comparison to other industrialised countries, is paving the way for a great leap forward. What is needed, Italian bankers point out, is time and patience.

Italy	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	3.9	0.2	−0.4	−1.2	2.9
Inflation (%)	21.2	17.8	16.5	14.7	10.7
Current accnt. balance (US$m)	−9,801	−8,604	−5,684	597	−1,000
Exchange Rate: Lira vs US$	856.4	1,136.8	1,352.5	1,518.8	1,757.0
Trade weighted index	53.64	48.42	45.86	45.73	44.69
Real trade weighted index	99.12	94.32	94.17	96.35	95.81

Profile: Ottavio Salamone

Merchant and a manager

By Alan Friedman

OTTAVIO SALAMONE is an Americanophile. The 55-year-old newly appointed director-general of the Banco di Sicilia spent a year at the Harvard Business School in 1971 and returned to Italy full of love and admiration for U.S. business methods.

Now that he has the responsibility of running Sicily's major bank and the ninth largest in Italy, with total assets of L23,227bn (US$11.6m), he can put into practice even more of the "management tools which I learned at Harvard." Not that the affable Dr Salamone has not already put much of his American experience into practice—indeed in the 1970s as chief economist, head of international division and director of strategic planning he worked for significant organisational and policy change at the Palermo-based bank.

The Banco di Sicilia, which has 325 branches in Italy and employs a workforce of 9,400, is a proud old institution whose origins go back to the 15th century. Until 1926, in fact, the bank was a regional central bank, even issuing currency. It was only during the last decade that Banco di Sicilia began expanding its foreign network of branches and representative offices, and much of this expansion was inspired by Dr Salamone.

Having entered the bank's Messina branch as a clerk in 1950, Dr Salamone's rise through the ranks parallels the careers of many UK clearing bankers. Throughout most of the 1950s he worked as a loan officer and credit analyst in Palermo, earning a degree in law and political science during years of night school at the University of Palermo. Then, in 1959, he went to London in an exchange programme as a trainee at the Midland Bank.

The 1960s saw Dr Salamone first a manager of the bank's Brussels office (for four years) and then based in Paris, where he was in charge of European operations in Paris, Brussels, Zurich and Frankfurt. For ten years, until 1978, he was chief economist of the bank and head of strategic planning. And during this decade he went to Boston, where he says he learned about "planning and control of systems."

The first thing he did upon his return from the U.S. in 1972 was to call in McKinsey, the management consultants, who spent two years reformulating the bank's system for monitoring branch profitability. Working with his mentor in the 1970s, Professor Francesco Bignardi (who was then the bank's director general and now holds this position at Banca Nazionale del Lavoro, Italy's largest bank), Dr Salamone says "we changed the culture of the bank and tried to stress to managers the importance of quality and profitability in loans rather than sheer quantity."

From 1978 to 1983, as head of international division he travelled the world, opening new branches. From 1983 until his appointment as director general two months ago, Dr Salamone was one of two deputy chief executives, commuting every few days between Rome and Palermo and effectively running the branch network.

Dr Salamone, whose private interests include classical music and gardening at his liberty-style villa in the elegant fishing village of Mondello (near Palermo), remains a convinced internationalist and forecasts further growth in Banco di Sicilia's foreign business.

He is also a believer in moving quickly to introduce new technology, both to serve customers and to reduce overheads.

"We need to be both merchants and managers," he says, apologising if that sounds like an American "slogan." But then Dr Salamone says he is an Americanophile.

Fee-based emphasis

Switzerland

JOHN WICKS

SWITZERLAND'S BANKS beat all the records last year. The balance-sheet total of the 71 which report monthly to the Swiss National Bank was up by 10 per cent to over SwFr 545bn, so that the combined assets of the entire banking system doubtless rose to well over the SwFr 700bn mark.

At the same time, portfolio-management and other fee business expanded even faster, and paid off even better.

The result has been a substantial improvement in what were already substantial profits. The Big Five (Union Bank of Switzerland, Swiss Bank Corporation, Crédit Suisse, Swiss Volksbank and Bank Leu) all paid higher dividends after showing net earnings up by between 12 and 20 per cent, while virtually every other bank with published accounts also improved its income.

The overall rise in profits was mainly caused by an increase in net interest income—both on the higher loans volume and from the banks' positions in bills of exchange and money-market paper—and to a further increase in commission income.

Earnings from their securities portfolios was well up over the year, while income from foreign exchange and precious-metals trading tended to fall as a result of the poor gold market.

According to the National Bank, domestic loans rose by 9.5 per cent last year, partly because of the strengthening of the Swiss economy but partly also to the new inclusion of Liechtenstein in the "domestic" total.

Foreign loans, which were almost exclusively in currencies other than the Swiss franc, rose by 19.5 per cent or faster than in any year since 1979. This was also rather an optical illusion, though, since the sharp rise in the dollar in terms of Swiss franc made the growth rate seem much more than it would otherwise have been.

In fact, Swiss banks are increasingly interested in building up fee-based financial services rather than interest-based balance-sheet business.

The increase in the balance-sheet total would have been only modest last year but for the higher dollar. Generally speaking, bankers are none too happy about any marked swelling of the published assets in light of Switzerland's stringent equity-ratio rules.

As it was, banks nearly doubled their share issues in 1984 (to some SwFr 616m) as well as raising almost SwFr 2.5bn of new money on the bond market.

It is impossible to do much more than guess how much money is currently being managed by the Swiss banks. Fiduciary assets alone had passed the SwFr 250bn mark by the end of last year. It seems realistic to assume that managed funds are today at least as large as the banks' and finance companies' combined balance sheets, and that they might even have reached the SWFr 1,000bn point.

Any assessment of the Swiss banking sector has to take in a look at the Swiss-franc capital market, since the banks play the multiple role of underwriters, stockbrokers and major institutional investors—quite apart from their importance as the biggest single group of borrowers (even exceeding that of public authorities).

Despite a fall in domestic bond issues, the total of new money raised publicly on the Swiss capital market remained very high at SwFr 19.8bn last year. While this was just below the 1983 record, turnover on the country's Stock Exchanges jumped to a new high; in Zurich alone, it rose 16 per cent to over SwFr 308bn.

The overall increase in the issue volume was due largely to a further rise to SwFr 11.15bn, in the floating of Swiss-franc bonds by foreign interests.

This accounted for well over one-quarter of total foreign borrowings in Swiss francs, the remainder being made up of nearly SwFr 19.5bn worth of medium-term notes (so-called private placements) and SwFr 10.3bn in banks' finance and export credits.

Generally speaking, Swiss bankers are today rather less cagey about lending money abroad. They have stayed cautious, though; in 1984, almost three-quarters of all approved foreign borrowings were by industrialised countries and a further 12 per cent by such development organisations as the gilt-edged World Bank.

As far as the regulatory environment is concerned, the banks were very relieved when the Social Democrats' "Banking Motion" was thrown out last year in a national referendum. This would have cramped their style considerably, not least by weakening bank-secrecy protection.

Nevertheless, the past few years have seen considerable encroachment on the banks' freedom to operate — partly due to a more restrictive policy on the part of the Swiss authorities, and partly following pressure brought to bear by the U.S.

The Banker's Association, which in the past years has already taken the initiative by signing good-conduct agreements with the National Bank, a "memorandum of understanding" with the U.S. aimed at combatting insider deals through Swiss banks and a voluntary deposit-insurance scheme, is now looking closely at the implications of the pending Bank Act revisions.

At the same time, the Swiss Banking Commission continues to keep a close and ever-closer watch on banks' solvency and accounting techniques.

The banks have little complaint at this — but are very exercised at the Finance Ministry's apparent unwillingness to do much to relieve their fiscal disadvantage on international capital markets.

Switzerland

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	4.6	1.5	−1.1	0.7	2.5
Inflation (%)	4.0	6.5	5.7	3.0	2.9
Current accnt. balance (US$m)	−1,555	1,498	3,934	3,526	3,200
Exchange Rate: Swiss francs vs US$	1.68	1.96	2.03	2.10	2.35
Trade weighted index	187.70	191.43	208.85	221.78	221.52
Real trade weighted index	114.51	111.89	116.05	117.25	113.00

Austria

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	3.0	−0.1	1.0	2.1	2.5
Inflation (%)	6.4	6.8	5.4	3.3	5.7
Current accnt. balance (US$m)	−1,725	−1,464	385	−119	0
Exchange Rate: Schillings vs US$	12.94	15.93	17.06	17.96	20.00
Trade weighted index	133.92	132.89	138.63	144.75	146.96
Real trade weighted index	103.46	100.43	100.22	100.05	98.54

Self-regulation

Austria

PATRICK BLUM

AFTER five years of deregulation and cut-throat competition Austria's credit institutions have decided to try to bring some order in the financial market through self-regulation. If that fails then most bankers unhappily admit that Government intervention will be inevitable if banks are to improve profit margins and capital ratios.

Austria's banks have suffered on two accounts: high interest rates in the late 1970s and early 1980s and over-enthusiastic competition caused by changes in the banking law in 1979, which effectively allowed almost all credit institutions to turn themselves into universal banks on the Swiss or West German model.

This encouraged a scramble for new business, both domestic and foreign, as well as providing an expansionary impetus for setting up new branches.

The intense competition that followed further depressed already low profit margins while costs soared.

Banking business was also adversely affected by the introduction in January 1984 of a 7.5 per cent flat rate tax on interest and the yield of fixed interest securities.

According to a recent study on costs and margins in banking by the Organisation for European Co-operation and Development (OECD), Austrian banking institutions have some of the lowest profit margins among OECD countries.

Falling profit margins and rising costs finally convinced the banks, after promptings from the Finance Ministry and the central bank, that it was time to put their house in order. To that effect senior bankers representing the various banking sectors drew up a voluntary agreement earlier this year to curb competition.

The agreement seeks to regulate lending and borrowing rates, curb "unfair" advertising practices and to establish sanctions against those that break the agreement. Interest rates are now determined according to the rate prevailing in lending to the Government and no loans are to carry interest below the rate at which the Government borrows.

Other steps, including legislation, are expected to tighten the rules on capital adequacy ratios which have constantly fallen in recent years.

The Finance Ministry is now looking at various proposals to improve capital ratios. While some bankers favour radical change with a new banking act, it is generally felt that the best option is to amend the existing law on the grounds that it provides an adequate framework for change.

In the mean time, bankers hope that their own self-regulation will work. The problem is that similar agreements have broken down before, and despite the introduction of fines for those who break the agreement it remains difficult to enforce.

The banks should nevertheless be able to improve their performance this year. For a start the tax on interest has been reduced from 7.5 per cent to 5 per cent as a first move by the newly appointed Finance Minister, Dr Franz Vranitzky, to encourage the capital market.

Operating costs may still be rising but not at the excessively high rate that followed the banking deregulation of 1979, when total operating costs (staff costs and other operating costs) rose by 33.3 per cent between 1979 and 1982, for the large joint stock banks, and by 37.6 per cent between 1978 and 1981 for the savings banks.

Cautious on automation

Netherlands

LAURA RAUN

DUTCH BANKS are moving carefully into the era of increasing competition, automation and globalisation that is reshaping the financial community world-wide.

The Dutch preference for reliability and consensus over speculation and aggressiveness has preserved the Netherlands' long reputation as a trustworthy financial centre, but it has also slowed banks' acceptance of new ways. Electronic banking and innovative financial instruments lag far behind those in the U.S., although Holland compares more favourably on the continent.

One area where consensus has predominated is automation. Dutch banks are proceeding cautiously with computerisation.

The boldest move has been by Amsterdam - Rotterdam Bank (AMRO), the second largest commercial bank, which recently announced that it would cut 1,000 jobs in the coming two years in a cost-cutting drive that includes automation.

On the retail side, electronic banking is still in its infancy. Display terminals for cash dispensing and funds transfers and identity cards, in the shape of credit cards, were introduced only last year. Dutch bankers have argued that the wide usage of Eurocheques made cash machines unnecessary.

The postal giro system, which competes directly with the commercial banks, has raised the stakes with a "chip card" that allows cash withdrawal in Holland and five other European countries. The six European PTTs and Japan plan to install several hundred terminals, which ultimately will enable holders of the computer chip-embedded card, which automatically deducts petrol purchases from the holders account, in Eindhoven.

General banks, which comprise commercial, savings and cooperative banks, also are pitted against the giro system in another area — the clearing system. The two separate clearing systems, one for the commercial banks and one for the giro system, impedes the transfer of funds and a proposal to merge the parallel systems has long been discussed. At the end of last year, however, commercial banks expressed reservations about efficiency and cost-savings of such a plan.

At the heart of the commercial banks' apprehension is the threat of increased competition, which is even greater because of plans to link the clearings-system merger with the spin-off of the postal bank. The merged postal bank and giro system already offers a wide range of services from chequeing to consumer credit, mortgages and insurance.

A legislative proposal to spin off the postal bank and give it free rein to provide all services, including business lending, has been languishing since 1977.

The general banks particularly fear further competition amid modest prospects for the industry in the coming year. Interest-rate margins—the difference between borrowing and lending fees—are expected to remain squeezed by stagnating credit demand.

The modest economic recovery in Holland has not prompted much new borrowing among business, which is financing investments from healthier profits, or from private individuals, whose consumption is still dampened by restrictive fiscal policy.

Commercial banks are scrambling to trim their fees for securities brokering and insurance, for example, while clearing costs, in particular, are rising. The four largest banks—ABN, AMRO, Nederlandsche Middenstandsbank and Rabobank — reported higher earnings last year, more because of reduced loan-loss provisions and taxes than because of expanded lending.

Not only are the commercial banks battling among themselves for retail and corporate business but also against the savings and foreign banks. The savings banks are seeking permision to begin corporate lending, which they currently are not allowed to do.

Roparco, a saving fund that is part of the huge Robeco group of trusts, offers the closest thing Holland has to a U.S. money - market fund. Roparco's rapid growth since its introduction several years ago has put the banking industry on guard.

Foreign banks, meanwhile, are also a real threat. Those with a 50 per cent or greater stake in Dutch banks now claim about one-third of the market.

Dutch bankers, for their part, are turning their attention to retail customers and small- and medium-sized businesses. ABN is launching a Fl 100m, multi-year programme aimed at transforming its branches into "living room" banks.

Andre Batenburg, the retiring chairman of ABN, recently said that instead of being a "house banker," ABN wanted to become a bank where customers felt at home. Called the open bank project, ABN plans to refurbish its 700 branches to replace the ubiquitous teller's counter with easy chairs and computer terminals.

ABN is also launching a range of new or revamped services including a capital start-up account for budding entrepreneurs.

In the light of the heavier emphasis on service and competitive fee cutting, the Dutch central bank has subtly warned banks against too drastically slashing their fees. The costs of providing banking services should be carefully reflected in the charges to customers, the Nederlandsche Bank cautioned in its 1984 annual report.

In General, Dutch banks seem content to concentrate on their domestic business for the time being. After a period of fairly rapid overseas expansion, Dutch bankers want to consolidate their growth while courting the customers at home.

Netherlands

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	0.9	−0.7	−1.7	0.6	1.8
Inflation (%)	6.5	6.7	5.9	2.8	3.3
Current accnt. balance (US$m)	−2,974	2,883	3,632	3,788	5,000
Exchange Rate: Guilders vs US$	1.99	2.50	2.67	2.85	3.21
Trade weighted index	127.98	123.28	131.19	136.24	136.08
Real trade weighted index	100.06	95.59	100.42	100.33	97.45

Lack of consensus on electronic format

Belgium

PAUL CHEESERIGHT

CO-OPERATION among the major Belgian banks in the development of electronic banking is becoming tattered around the edges. The steady growth of a common communications system has stalled in the face of the rival claims of the main cash card competitors, Mister Cash and Bancontact.

Speed and efficiency in the domestic banking system has markedly increased since in the 1970s, the banks created a common clearing system based on a uniform pattern of account numbering.

The next stage is to extend the cash card system through point-of-sale terminals beyond those already situated extensively in petrol stations and to a lesser extent in department stores.

Senior bankers concede that the technical difficulties of co-operation could be overcome but they note increasing concern about the loss of a bank's identity behind a generic card.

Mister Cash brings together Société Générale de Banque, the largest of the Belgian private sector banks and now changing its name to Générale de Banque, with Crédit Communal, a state institution, and other smaller financial concerns.

Bancontact is the child of Banque Bruxelles Lambert and Kredietbank, respectively the second and third largest private sector banks, and Caisse Générale d'Epargne et de Retraite, with other smaller banks.

The major commercial banks are, in any case, independently competing to offer clients a greater range of electronic services.

This drive into electronics, still in its early stages, however, has been taking place against a background of relatively low profitability compared with banks in other countries.

The latest analysis from the Banking Commission, the national regulatory body, showed that if net profits are expressed as a percentage of financial resources, the return for the Belgian banks is 0.22 per cent against 0.61 per cent for the UK, 0.44 per cent for Switzerland and 0.25 per cent for Germany.

Banque Bruxelles Lambert, in its latest annual report, attributed relatively low profits both to high costs, aggravated by the indexation of wages and rises in social security contributions, and to the higher percentage of vices, not least direct links, funds allocated to financing the Belgian public sector.

On the second point, though, the need to finance the public sector has provided security for banks, and helped avoid excessive exposure to Latin America and Eastern Europe.

Private sector lending has been sluggish, and only in recent months, the latest figures from the banks show, has the rise in the provision of credit to the private sector started to increase proportionately faster than that to the public sector.

Operating profits have also been on the rise, while balance sheets have been stabilised by rights issues. The process of capital raising has not finished: Société Générale de Banque is going to the markets for BFr 4bn. According to the Belgian Association of Banks, the proportion of shareholders' funds to the total balance sheet among the banks had fallen from 6.42 in 1960 to 1.72 in 1983.

Belgium

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	3.3	−1.2	1.1	0.4	1.5
Inflation (%)	6.6	7.6	8.7	7.7	6.3
Current accnt. balance (US$m)*	−4,945	−4,174	−2,669	−762	+292
Exchange Rate: B. francs vs US$	29.24	37.13	45.69	51.13	57.78
Trade weighted index	118.37	113.24	102.78	100.99	100.23
Real trade weighted index	92.52	87.98	79.73	78.37	78.16

* Refers to Belgium-Luxembourg, excluding transactions between the two countries.

Sweden

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	1.7	−0.5	0.5	2.3	2.8
Inflation (%)	13.7	12.1	8.6	8.9	8.0
Current accnt. balance (US$m)	−4,404	−2,487	−3,394	−916	100
Exchange Rate: Kroner vs US$	4.23	5.06	6.28	7.67	8.27
Trade weighted index	94.92	93.85	84.63	76.82	79.31
Real trade weighted index	101.33	100.62	95.25	91.04	95.20

Credit policy more market orientated

Sweden

KEVIN DONE

"IN RECENT years reality has caught up with Swedish credit policy and we have witnessed controls collapsing under the weight of their own unwieldiness," says Mr Curt Olsson, chairman of Skandinaviska Enskilda Banken, Sweden's biggest commercial bank.

Swedish credit policy has become more market-oriented, not least under the twin pressures of continuing heavy state budget deficits and a big rise in the liquidity of the corporate sector.

The regulatory measures that remain, apart from the capital market institutions' investment obligation, are chiefly the central bank's recommendations that govern the banks' lending operations which apply both to prices and to volumes.

The financing of the Government debt has become increasingly more market-oriented, with one of the most recent innovations being the introduction of an auction procedure for Treasury bills and Treasury notes.

"With the growing tendency on the part of the authorities towards de-regulation, the situation for the Swedish capital market is very interesting," says Mr Olsson. "Never before have the opportunities for the creation of a smoothly running capital market been as large as they are today."

Before 1980 a money market hardly existed in Sweden. The corporate sector had little choice but to place surplus liquidity on deposit on special terms with the banks. At the same time the state managed its borrowing needs by force-feeding the banks and insurance companies with below market rate state and mortgage bonds.

New ground was broken in 1980 when the banks introduced certificates of deposit and the pace began to quicken in 1982 with the launch by the state of Treasury bills and the creation by the banks of a commercial paper market. In 1983 the Government launched market rate state bonds (Riksobligationer) or Treasury notes.

Additional instruments are being introduced and futures trading in Treasury notes and Treasury bills is a growing activity. Mr Olsson maintains that the money market is still in a "turbulent phase" of development with increasing volumes, a faster rate of turnover and increased competition for the banks from stockbrokers and merchant banks.

The volume of the money market in Sweden has mushroomed. By the end of 1983 it had grown to some SKr 180bn according to S-E Banken, in the form of deposits on special terms, certificates of deposit, commercial paper, Treasury notes, corporate/municipal paper and Treasury bills.

The turnover on the secondary market was estimated at some SKr 500bn in 1983, rising to SKr 600-700bn in 1984. The outstanding volume on the market had increased to some SKr 300bn by the end of last year.

The credit market has been revitalised by the new debt instruments that have been introduced, but it has also been encouraged by a number of deregulation measures.

Bank liquidity requirements have been abolished, bond issue controls have been made less rigorous and bank interest controls have at least been replaced by the central bank recommendations. At the same time the Riksbank, the central bank, has been more and more active in open market operations.

The Swedish banking market is also finally being opened up to foreign banks. Sweden is the last country in the Organisation for Economic Cooperation and Development (OECD)—apart from Iceland and New Zealand—to make such a move, but according to legislation now before the Riksdag, the Swedish Parliament, foreign banks should be able to establish subsidiaries in Sweden from early 1986.

Sweden has been driven to join the international fold by the need to show reciprocity, but the Government has put a brave face on the move, and Mr Kjell-Olof Feldt, Finance Minister, believes that the arrival of the foreign banks "will generate stimulating and positive competition."

Foreign banks will "receive equal treatment as far as possible with Swedish banks, says Mr Feldt, and will be able to operate both finance companies and stock market brokerages. At the same time, all foreign banks opening up in Sweden must offer at least some limited form of retail banking services.

Increasing competition for the domestic banks is coming not only from abroad but also from the big multinational industrial corporations in Sweden, which are becoming more sophisticated and self-sufficient. Volvo, the Swedish automobile group, for instance, has recently formed its own financial subsidiary to take over the more active management of the group's growing cash mountain.

It is becoming one of the biggest institutions in the Swedish money and capital markets—it will rival the country's fourth largest bank in size—dealing chiefly in Treasury bills, bonds and certificates of deposit.

One area of financial regulation that has remained largely unreformed since 1939 is Sweden's foreign exchange control regime, but here too opportunities for change are at least begin examined. A Government committee has been studying possible reform of the country's foreign exchange regulations since 1978 and its report is expected to be published in the autumn.

With the current account of the balance of payments heavily in deficit for several years until 1984—it is expected to fall back into deficit in 1985—and continuing large capital outflows, the Government feels that the moment is hardly suited for any sweeping liberalisation, but some small moves may follow the publication of the committee's report.

The corporate sector is campaigning hard for some easing of the regulations governing direct investment abroad. At present, any investment abroad has to be financed abroad, which leaves companies heavily exposed to foreign exchange risks and unable to use surplus domestic liquidity for foreign investment.

Stronger foreign competition

Norway

FAY GJESTER

SEVEN OF ten foreign banks which had applied to set up Norwegian subsidiaries have this year been given permission to do so. They are Samuel Montagu, of the UK, three French groups—Indosuez, Paribas and Banque Nationale de Paris—and three from the U.S., Citibank, Chase Manhattan and Manufacturers Hanover.

Three Swedish banks which also applied were refused because Sweden will not be lifting its ban on foreign banking subsidiaries until next year and Norway insisted on reciprocity.

The decision to admit the foreigners—albeit on a limited scale, to start with—fits in with the Conservative-led coalition's general strategy of liberalising the credit market and encouraging greater competition in the provision of financial services.

Steps in this direction have included the abolition, from January 1, of rules requiring banks to maintain bond holdings at a certain level and a loosening of restrictions governing kroner loans to foreign customers.

This year, too, banks and finance companies have been allowed—for the first time—to issue short-term negotiable paper. This newly-won right will partly compensate for the fact that banks, like insurance companies, are still not allowed to issue bonds.

Also welcomed by the banking community was a government decision that the Bank of Norway should be allowed to put a small proportion of its extensive foreign exchange reserves on deposit with Norwegian banks, at market interest rates.

The amount that is being made available at first, is only about NKr 3-4bn, less than 5 per cent of the central bank's foreign currency reserves at end-1984 and modest, too, in relation to Norwegian banks' normal foreign currency borrowing from other sources.

Moreover, deposits are for a maximum of 12 months, and no one bank may borrow more than 1.5 per cent of its total assets. These limits are temporary, however, and bankers hope they will be gradually eased, after an initial trial period.

Not all the Government's actions are equally popular with the banking sector. Like its socialist predecessors, the present administration enforces a policy of rigid ceilings on bank interest charges, combined with measures to curb lending growth, which squeezes interest rate margins hard.

The minimum reserve requirement for south Norwegian banks, increased three times during 1984, was further boosted in January—from 10 per cent to 11 per cent. At the same time, the Government introduced measures to lower short-term money market rates (to discourage inflows of short-term foreign funds) and slashed the Treasury bill rate by two percentage points to 8.5 per cent.

The banks regarded the latter move as virtually an extra tax on their activities, since they normally invest in Treasury bills the funds they put aside to meet minimum reserve requirements.

The 1984 accounts of Norway's "Big Three" commercial banks—Den norske Creditbank, Christiania Bank and Bergen Bank—all show declines in net interest income, as a proportion of total assets.

Last year the impact of this trend was offset by sharply increased profits from other sectors, particularly share trading (reflecting Norway's 1984 stock market boom) and currency dealing. Costs rose less than in previous years, partly because of a moderate spring wage settlement.

This year, these other activities may not provide such a comfortable cushion. The stock exchange boom could be coming to an end. Share values on the Oslo bourse weakened, overall, from end-January to mid-April—pulled down by declining oil prices and some steep falls in certain high-tech issues.

On April 17 the all-share index stood at 254.12, compared with 268.9 on January 31 and 259.9 on February 28. (January 1 1983 = 100.)

After much hesitation, because of customer resistance, the commercial banks have now decided to begin charging for payments services, as a way of compensating for shrinking interest margins. The commercial banks' association had hoped to introduce a uniform charge on cheques, effective July 1 this year.

The idea of a uniform charge has had to be dropped, because the Government would not waive existing rules which bar monopoly price fixing. But the individual banks will almost certainly begin charging customers for cheque cashing from this summer. A charge for bank giro services will probably follow—particularly if the Government decides that the post office should also charge for transactions in its giro system.

If the post giro service remains free, the keen competition between the bank and post office giro systems could delay the introduction of bank giro charges. The past decade has seen a steep increase in the bank's share of this market, once heavily dominated by the post office; bank giros now account for 45 per cent of all giro transactions. The banks would be reluctant to impose charges that could reverse this trend.

Norway

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	4.3	0.9	1.0	3.2	3.0
Inflation (%)	10.8	13.7	11.4	8.4	6.3
Current accnt. balance (US$m)	−1,098	2,184	675	2,204	3,000
Exchange Rate: Kroner vs US$	4.94	5.74	6.45	7.30	8.16
Trade weighted index	115.88	117.65	119.13	117.76	117.19
Real trade weighted index	101.43	102.85	103.35	102.44	101.89

A near euphoric feeling

Finland

LANCE KEYWORTH

A LITTLE over a year ago Finnish bankers were moaning about squeezed profit margins. In the banks' 1984 annual reports results for the year are described in terms ranging from "best result ever" (SKOP, Central Bank of Savings Banks), to "good" (Okobank and Union Bank of Finland).

Kansallis - Osake - Pankki (KOP) uses "very satisfactory," while all three foreign banks in Finland, Citibank, Chase Manhattan and Indosuez, reported a good year.

The fact that the Finnish economy in general was healthy, contributed to this near euphoric feeling in the banking world. But the gradual steps towards deregulation were also a factor and, more important, they were evidence that the change was succeeding, and that the process should be continued.

The banking system will require rationalisation as the transition continues. To take one example, the commercial banks of this country of 4.8m inhabitants have more than 1,200 offices, and there are about 2,500 savings and cooperative bank offices.

The process will have to be gradual. Mr Rolf Kullberg, Governor of the Bank of Finland, noted in the Bank of Finland's Monthly Bulletin recently: "There are numerous small banks in Finland for which a rapid change could cause difficulties."

The restructuring of the financial system is promoting competition, it is claimed. Certainly, the enormous amount of space that the Finnish newspapers have been devoting recently to the banking and securities markets is both a reflection of and a stimulus for far greater public interest rate thinking.

Finland has a dual rate system, regulated and unregulated. It is so far only in the unregulated market that there is any real scope for competition. The regulated market, in which bank lending rates are controlled by the Central Bank, is still largely unchanged.

Securities have been achieving sudden popularity, although dividend income is taxable. The trading volume of the Helsinki Stock Exchange doubled in 1984, but is still small by international standards.

However, there is no question of bank-stockbroking mergers in Finland. In January 1985, according to the Selfina Stock Market Review, banks accounted for 62.5 per cent of the trading in listed shares, while independent brokers handled only 37.5 per cent.

At the Nordic Investment Seminar, organised by KOP and Reincheimer Nordberg, the Finnish Prime Minister, Mr Kalevi Sorsa, a Social Democrat, concluded his speech by saying: "It is only right and proper that aggressive foreign investors drive Finnish companies to improve their profit performance."

Finland

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	5.6	1.8	1.8	3.9	4.0
Inflation (%)	11.6	12.0	9.3	8.4	7.1
Current accnt. balance (US$m)	−1,409	−373	−753	−945	0
Exchange Rate: Markaa vs US$	3.73	4.32	4.82	5.57	6.01
Trade weighted index	91.51	93.73	95.83	92.54	95.34
Real trade weighted Index	111.79	117.03	118.36	113.62	115.40

Swift action restores confidence

Denmark

HILARY BARNES

THE COLLAPSE last December of Kronebanken, Denmark's seventh ranking commercial bank (ninth ranking including savings banks) and proposals by the three largest insurance companies to diversify into non-insurance financial services were the two outstanding developments in Danish banking in the past year.

The Kronebanken collapse was the most serious event of its kind since the 1930s, but the causes of the collapse were specific to Kronebanken and did not reflect a general unsoundness in the Danish banking system.

The bank, created by a merger of two regional banks in 1983, was apparently gripped in 1984 by a fit of collective lunacy, as the head of the bank inspectorate, Mr K. Bjoern Jensen put it.

When disaster struck, the losses were enormous, exceeding the bank's equity capital by a substantial margin. At DKr1.5bn, the losses were so big that neither of the banks which were interested in acquiring Kronebanken's branch network, Provinsbanken and Jyske Bank, felt that it was able to proceed with a merger.

Kronebanken was kept afloat when the three big banks, Copenhagen Handelsbank, Danske Bank and Privatbanken, together with the National (Central) Bank put up DKr 500m in guarantees.

The National Bank also guaranteed to meet all the bank's cash requirements. The Minister of Industry and Commerce provided a dispensation from the rule that a bank's equity capital must equal at least eight per cent of its deposits and guarantees.

After a serious run on the bank in December and January, after the news of the bank's problems, the swift action by the authorities finally restored confidence in the bank, but its future remains a matter for speculation. The most likely outcome is that when it has reduced its losses to more manageable proportions it will be taken over by a larger bank.

The problems at Kronebanken raised questions about the adequacy of the bank inspectorate, but Mr Bjoern Jensen, for whose staff the events were a nightmare, rejects criticism of the inspectorate.

Under Danish law, financial services are strictly compartmentalised: banks stick to banking, brokers to broking and insurance companies to insurance.

This may now be about to change, though change will probably be gradual and not necessarily very radical.

The three major insurance companies, Hafnia, Baltica and Topsikring (the latter a mutual company which is proposing to re-mutualise and turn itself into a joint stock company) either have or are in the process of rearranging their corporate structures, providing the companies with a holding company as the main shareholder.

The holding company will be able to own companies which are able to undertake business other than insurance, which is not permissible for the insurance companies themselves.

The details of what the insurance companies propose to do remain hazy, but the general idea is that they will branch out into other forms of financial services. The concept of the financial supermarket—or as some say the financial shopping centre—is much in the air, but it seems likely that the authorities will endeavour to ensure that the breaking down of the barriers between the financial service sectors does not go too far or too fast.

Denmark

	1980	1981	1982	1983	1984
Real GDP growth (% from previous year)	−0.4	−0.9	3.4	2.5	4.0
Inflation (%)	12.3	11.7	10.1	6.9	6.3
Current accnt. balance (US$m)	−2,466	−1,875	−2,259	−1,176	−1,500
Exchange Rate: Kroner vs US$	5.64	7.12	8.33	9.15	10.36
Trade weighted index	102.34	96.15	93.07	94.87	93.32
Real trade weighted Index	108.48	107.14	105.85	106.56	105.44